

City of Calistoga

Staff Report

TO: Honorable Mayor and City Council
FROM: Bill Mushallo, Administrative Services Director
DATE: June 21, 2011
SUBJECT: Authorization for the issuance of Tax Revenue Anticipation Notes for the Fiscal Year 2011/2012

APPROVAL FOR FORWARDING:

Richard Spitler, City Manager

1
2 **ISSUE:** To hear a brief presentation of and provide direction regarding the issuance of
3 Tax Revenue Anticipation Notes for cash flow purposes.
4

5 **RECOMMENDATION:** To adopt a resolution authorizing the issuance of Tax Revenue
6 Anticipation Notes.
7

8 **BACKGROUND:** Revenues and expenditures have been analyzed and included in a
9 cash flow forecast for the City's General Fund for Fiscal Year 2011/12. Property Tax
10 revenues will not be received by the City until December of 2011. Significant
11 expenditures will need to be paid before December including payroll and benefit costs;
12 liability, workers compensation and property insurances; contract services, etc. This will
13 create a cash flow shortfall between July and December. In order to cover the cash
14 flow shortfall the City is recommending selling TRANs (Tax Revenue Anticipation Notes)
15 in an amount not to exceed \$1.5 million dollars. The proceeds of these notes will cover
16 the City's cash flow needs for Fiscal Year 2011/12. Last fiscal year the City issued
17 TRANs in the amount of \$1,465,000.
18

19 **ANALYSIS:** The City's Financial Advisor, Brandis Tallman, LLC is currently negotiating
20 a private placement of the securities with various banking institutions. They are
21 optimistic that an extremely competitive interest rate can be secured and it is anticipated
22 that the City will be able to earn nearly as much investing the proceeds in California's
23 pooled investment account, LAIF, until they are needed for cash flow. It is anticipated
24 that the interest rate for the proposed TRANs will be between ¾ of 1% and 1%. Private
25 placement of the securities also cuts down on the issuance costs.
26

27 **ATTACHMENTS:**
28 1. Resolution
29

RESOLUTION NO. 2011-_____

RESOLUTION PROVIDING FOR THE BORROWING OF FUNDS FOR FISCAL YEAR 2011-12 IN AN AMOUNT NOT TO EXCEED \$1,500,000 AND THE ISSUANCE AND SALE OF 2011-12 TAX AND REVENUE ANTICIPATION NOTES THEREFOR, APPROVING THE PUBLICATION OF NOTICES IN CONNECTION WITH SUCH SALE, AND AUTHORIZING THE AWARD OF SUCH NOTES SUBJECT TO CERTAIN CONDITIONS, AND CERTAIN RELATED MATTERS

1 **WHEREAS**, pursuant to Section 53850 et seq. of the Government Code of the State of
2 California (the "Government Code") contained in Article 7.6 thereof, entitled "Temporary
3 Borrowing," on or after the first day of any fiscal year (being July 1), a city may borrow money
4 by issuing notes for any purpose for which a city is authorized to expend moneys, including but
5 not limited to current expenses, capital expenditures, and the discharge of any obligation or
6 indebtedness of a city; and

7 **WHEREAS**, pursuant to Section 53853 of the Government Code, the City Council (the
8 "Council") of the City of Calistoga (the "City") has found and determined that the sum of up to
9 One Million Five Hundred Thousand Dollars (\$1,500,000) is needed for the requirements of the
10 City to satisfy obligations payable from the General Fund of the City, and that it is necessary that
11 an amount up to said sum be borrowed for such purpose at this time by the issuance of notes (the
12 "Notes") therefore in anticipation of the receipt of taxes, revenues and other moneys to be
13 received by the City for the General Fund of the City during or allocable to Fiscal Year 2011-12;
14 and

15 **WHEREAS**, the City intends to borrow, for the purposes set forth above, an amount not
16 to exceed One Million Five Hundred Thousand Dollars (\$1,500,000) by the issuance of the
17 Notes; and

18 **WHEREAS**, the Notes shall be payable no later than 15 months after the date of issue, as
19 permitted by Section 53854 of the Government Code, and the Notes shall be payable only from
20 revenue received or accrued during the fiscal year in which issued; and

21 **WHEREAS**, the Notes shall not bear interest exceeding six percent (6%) per annum as
22 permitted by Section 53531 of the Government Code, notwithstanding Section 53854 of the
23 Government Code; and

24 **WHEREAS**, pursuant to Section 53856 of the Government Code, the City may pledge
25 any taxes, income, revenue, cash receipts or other moneys deposited in inactive or term deposits
26 (but excepting certain moneys of the City, including moneys encumbered for a special purpose);
27 and this Resolution specifies that certain unrestricted revenues which will be received by the City
28 for the General Fund of the City during or allocable to Fiscal Year 2011-12 are pledged for the
29 payment of the Notes; and

30 **WHEREAS**, the Notes shall be a general obligation of the City, and to the extent not
31 paid from the taxes, income, revenue, cash receipts and other moneys of the City pledged for the
32 payment thereof shall be paid with interest thereon from any other moneys of the City lawfully
33 available therefore, as required by Section 53857 of the Government Code; and

34 **WHEREAS**, the Notes will not be issued in an amount greater than the maximum
35 amount as permitted and provided in the Income Tax Regulations of the United States Treasury
36 promulgated under Section 148 of the Internal Revenue Code of 1986, as amended (the "Internal
37 Revenue Code"); and

38 **WHEREAS**, it appears, and the Council hereby finds and determines, that said sum of
39 One Million Five Hundred Thousand Dollars (\$1,500,000), when added to the interest payable
40 thereon, does not exceed eighty-five percent (85%) of the estimated amount of the uncollected
41 taxes, incoming revenue (including but not limited to revenue from state and federal
42 governments), cash receipts and other moneys of the City for the General Fund of the City
43 attributable to Fiscal Year 2011-12, and available for the payment of the Notes and the interest
44 thereon as required by Section 53858 of the Government Code;

45 **NOW, THEREFORE**, the Council of the City of Calistoga does ordain as follows:

46 Section 1. Recitals True and Correct. All of the recitals set forth above are true and
47 correct, and the Council so finds and determines.

48 Section 2. Authorization of Notes. Solely for the purpose of anticipating taxes,
49 revenues and other moneys to be received by the City for the General Fund of the City during or
50 allocable to Fiscal Year 2011-12, the City hereby determines to and shall borrow the aggregate
51 principal sum of not to exceed One Million Five Hundred Thousand Dollars (\$1,500,000) by the
52 issuance of notes under Section 53850 et seq. of the Government Code, designated "City of
53 Calistoga, California 2011-12 Tax and Revenue Anticipation Notes", to be in fully registered
54 form, to be numbered from one upwards in consecutive numerical order, preceded by the letters
55 "R" and the series designation of the Notes, to be in denominations of \$5,000 and integral
56 multiples thereof, to mature not later than 15 months from the date of issuance, and to bear
57 interest, payable at maturity and, if the maturity of the Notes is more than 12 months after the
58 date of issuance, on a date not later than 12 months after such date of issuance and computed on
59 a 30-day month/360-day year basis at a rate not in excess of six percent (6%) per annum. Both
60 the principal of and interest on the Notes shall be payable, only upon surrender of the Notes, in
61 lawful money of the United States of America, at the designated trust office (or, if the City is
62 Fiscal Agent as described below, City Hall) of a financial institution appointed by the City as
63 fiscal agent or, alternatively, the City may appoint itself as fiscal agent and perform the duties of
64 the Fiscal Agent hereunder (the "Fiscal Agent"); provided, however, that if the maturity of the
65 Notes is more than 12 months after the date of issuance, then the interest due on a date not later
66 than 12 months after such date of issuance will be paid by check mailed to the registered holders
67 of the Note at their addresses appearing on the registration books of the Fiscal Agent as of the
68 close of business on the 15th calendar day preceding such interest payment date or, so long as the
69 Notes are registered in the name of Cede & Co., by wire transfer to an account in the United
70 States designated by Cede & Co.

71 The City may, but is not required to, appoint The Depository Trust Company, New York,
72 New York ("DTC") as securities depository for the Notes and register the Notes in the name of
73 Cede & Co., as nominee for DTC. If DTC serves as securities depository for the Notes, the

74 Notes shall be executed and delivered in the form of a single fully registered Note in the full
75 aggregate principal amount of the Notes. The City may treat DTC (or its nominee) as the sole
76 and exclusive owner of the Notes registered in its name for all purposes of this Resolution, and
77 the City shall not be affected by any notice to the contrary. The City shall not have any
78 responsibility or obligation to any participant of DTC (a "Participant"), any person claiming a
79 beneficial ownership interest in the Notes under or through DTC or any Participant, or any other
80 person which is not shown on the register of the Fiscal Agent as being a holder, with respect to
81 the accuracy of any records maintained by DTC or any Participant or the payment or failure to
82 pay by DTC or any Participant of any amount in respect of the principal or interest with respect
83 to the Notes. The Fiscal Agent shall pay all principal and interest with respect to the Notes only
84 to DTC, and all such payments shall be valid and effective to fully satisfy and discharge the
85 City's obligations with respect to the principal and interest with respect to the Notes to the extent
86 of the sum or sums so paid. Except under the conditions described below, no person other than
87 DTC shall receive a Note. Upon delivery by DTC to the Fiscal Agent of written notice to the
88 effect that DTC has determined to substitute a new nominee in place of Cede & Co., the term
89 "Cede & Co." in this Resolution shall refer to such new nominee of DTC.

90 If the City determines that it is in the best interest of the beneficial owners that they be
91 able to obtain Notes and delivers a written certificate to DTC to that effect, DTC shall notify the
92 Participants of the availability through DTC of Notes. In such event, the City shall issue,
93 transfer and exchange Notes as requested by DTC and any other holders in appropriate amounts.
94 DTC may determine to discontinue providing its services with respect to the Notes at any time
95 by giving notice to the City and discharging its responsibilities with respect thereto under
96 applicable law. Under such circumstances (if there is no successor securities depository), the
97 City shall be obligated to deliver Notes as described in this Resolution. Whenever DTC requests
98 the City to do so, the City will cooperate with DTC in taking appropriate action after reasonable
99 notice to (a) make available one or more separate Notes evidencing the Notes to any DTC
100 Participant having Notes credited to its DTC account or (b) arrange for another securities
101 depository to maintain custody of certificates evidencing the Notes.

102 Notwithstanding any other provision of this Resolution to the contrary, so long as any
103 Note is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to
104 the principal and interest with respect to such Note and all notices with respect to such Note shall
105 be made and given, respectively, to DTC as provided in the Blanket Letter of Representations on
106 file with DTC on the date of issuance of the Notes.

107 Section 3. Registration. The Notes shall be issued in fully registered form, and shall
108 be substantially in the form and substance set forth in Exhibit A attached hereto and by reference
109 incorporated herein, the blanks in said form to be completed with appropriate words and figures.
110 There shall be printed on or attached to each Note the legal opinion of Hawkins Delafield &
111 Wood LLP, Bond Counsel, respecting the validity of said Notes.

112 Subject to the provisions of Section 2 hereof, the registration of any Note may, in
113 accordance with its terms, be transferred, upon the registration books kept by the Fiscal Agent
114 for such purpose, by the person in whose name it is registered, in person or by his or her duly
115 authorized attorney, upon surrender of such Note for cancellation, accompanied by delivery of a
116 written instrument of transfer, duly executed in a form approved by the Fiscal Agent.

117 If the Notes were initially sold pursuant to a private placement, the Fiscal Agent shall not
118 register the transfer of any Note unless the Fiscal Agent receives an investor letter in the form
119 attached hereto as Exhibit B signed by the proposed transferee.

120 Whenever any Note or Notes shall be surrendered for registration of transfer, the Fiscal
121 Agent shall execute and deliver a new Note or Notes, for a like aggregate principal amount. The
122 Fiscal Agent shall require the Note owner requesting such registration of transfer to pay any tax
123 or other governmental charge required to be paid with respect to such transfer. The City may
124 require the owner requesting such registration of transfer to pay such additional reasonable
125 charge as may be necessary to cover customary expenses incurred and fees charged by the Fiscal
126 Agent or the City with respect to such registration of transfer. The City and the Fiscal Agent
127 may treat the registered owner of any Note as the absolute owner thereof for all purposes
128 whatsoever in accordance with this Resolution, and the City and the Fiscal Agent shall not be
129 affected by any notice to the contrary.

130 Subject to the provisions of Section 2 hereof, Notes may be exchanged at the office of the
131 Fiscal Agent for a like aggregate principal amount of Notes in other authorized denominations.
132 The Fiscal Agent shall require the payment by the Note owner requesting such exchange of any
133 tax or other governmental charge required to be paid with respect to such exchange. The City
134 may require the owner requesting such exchange to pay such additional reasonable charge as
135 may be necessary to cover customary expenses incurred and fees charged by the Fiscal Agent or
136 the City with respect to such exchange.

137 Section 4. Proceeds of Notes. The proceeds of the sale of the Notes shall be
138 deposited in a special segregated subfund or subaccount of the General Fund of the City, which
139 subfund or subaccount shall be given a name sufficient to identify it as holding the proceeds of
140 the sale of the Notes. The proceeds of the sale of the Notes shall be used and expended by the
141 City for any purpose for which it is authorized to expend funds from the General Fund of the
142 City, including the costs of issuing the Notes, which costs are hereby authorized to be paid by the
143 City.

144 In the discretion of the City Manager, the Administrative Services Director of the City or
145 the designee of either, the amounts held in such subfund or account of the General Fund may be
146 transferred to a fiscal agent pursuant to a fiscal agent agreement, for deposit in the Proceeds
147 Account thereunder, and may be invested by the Fiscal Agent as directed by the City Manager,
148 Administrative Services Director or the designee of either, pending disbursement at the request
149 of the City, pursuant to a fiscal agent agreement; provided, however, that any investment of the
150 amounts held in such fund or account, whether held in a subfund or subaccount of the General
151 Fund or by the Fiscal Agent in the Proceeds Account, shall be invested as permitted by
152 California law as it is now in effect and as it may be amended from time to time, and in
153 accordance with the investment policy of the City applicable thereto. Permitted investments
154 include, without limitation, any investment permitted by Government Code Section 53601 and
155 any investment agreement, repurchase agreement or guaranteed investment contract that (i) is
156 entered into with a commercial bank or other entity whose long-term debt is rated, at the time
157 such agreement or contract is entered into, in one of the two highest rating categories by
158 Moody's Investors Service and Standard & Poor's Ratings Services, a division of the McGraw
159 Hill Companies, and (ii) is otherwise acceptable to each rating agency then rating the Notes. No
160 such investments shall have a maturity date later than the maturity date of the Notes. The
161 investment earnings on any such investment shall be retained by the City or the Fiscal Agent in

162 such fund or account until all of the Notes have been fully paid, at which time any excess amount
163 shall be paid to the General Fund of the City.

164 Section 5. Pledged Moneys. The principal amount of the Notes, together with the
165 interest thereon, shall be payable from taxes, revenues, income, cash receipts and other moneys
166 which are received by the City for the General Fund of the City for the Fiscal Year 2011-12 and
167 which are available for the payment of current expenses and other obligations of the City. As
168 security for the payment of the principal of and interest on the Notes the City hereby pledges: (i)
169 an amount equal to one hundred percent (100%) of the principal amount of the Notes, from
170 unrestricted moneys on deposit with the City in the month ending June 30, 2012 (or in such other
171 time period as may be selected by the City as provided below); and (ii) an amount sufficient to
172 pay interest on the Notes at maturity, from the first unrestricted moneys on deposit with the City
173 in the month ending June 30, 2012 (or in such other time period as may be selected by the City
174 as provided below) (collectively, such pledged amounts being hereinafter called the "Pledged
175 Moneys"), and the principal of the Notes and the interest thereon shall constitute a first lien and
176 charge against and shall be payable from the first moneys received by the City from such
177 Pledged Moneys, and to the extent not so paid shall be paid from any other moneys of the City
178 lawfully available therefore. Deposits of Pledged Moneys may take into account as a credit any
179 earnings on deposit in the Special Account (as hereinafter defined).

180 The City Manager, the Administrative Services Director, or the designee of either, is
181 hereby authorized to select other time periods than those designated above within Fiscal Year
182 2011-12, for which unrestricted moneys received by the City are pledged to the payment of the
183 principal of and interest on the Notes if, upon the advice of the City's financial advisor, the
184 pledge of unrestricted moneys received during such other time periods would be financially
185 advantageous to the City. Any such change shall be described in the Notes as finally executed
186 and delivered, and the City Manager or the Administrative Services Director, or the designee of
187 either, shall certify at the time of delivery of the Notes as to this and all other terms of the Notes.
188 In the event there are insufficient unrestricted moneys received by the City to permit the deposit
189 into the Special Account, as hereinafter defined, of the full amount of the Pledged Moneys to be
190 deposited in the applicable month, by the next to last business day of such month, then the
191 amount of any deficiency shall be satisfied and made up from any other moneys of the City
192 lawfully available for the repayment of the Notes and interest thereon. The term "unrestricted
193 moneys" shall mean taxes, income, revenue, cash receipts, and other moneys of the City,
194 intended as receipts for the General Fund of the City and which are generally available for the
195 payment of current expenses and other obligations of the City.

196 Section 6. Special Account. The Pledged Moneys shall be deposited by the City with
197 and held by the Fiscal Agent, in trust, in a special fund designated "City of Calistoga, California
198 2011-12 Tax and Revenue Anticipation Notes Special Account" (hereinafter referred to as the
199 "Special Account") and applied as directed in this Resolution. Any money deposited by the
200 Fiscal Agent in the Special Account shall be for the benefit of the holders of the Notes, and until
201 the Notes and all interest thereon are paid or until provision has been made for the payment of
202 the Notes at maturity with interest to maturity, the moneys in the Special Account shall be
203 applied only for the purposes for which the Special Account was created.

204 All Pledged Moneys shall, when received, be paid to the Fiscal Agent for deposit in the
205 Special Account. On the date of maturity of the Notes, the moneys in the Special Account shall
206 be used and applied, to the extent necessary, to pay the principal of and interest on the Notes.
207 Any moneys remaining in the Special Account after the Notes and the interest thereon have been

208 fully paid, or provision for such payment has been made, shall be transferred to the City for
209 deposit into its General Fund.

210 Moneys in the Special Account shall be invested as permitted by California law as it is
211 now in effect and as it may be amended from time to time, and in accordance with the
212 investment policy of the City as may be applicable thereto. Permitted investments include,
213 without limitation, any investment permitted by Government Code Section 53601 and any
214 investment agreement, repurchase agreement or guaranteed investment contract that (i) is entered
215 into with a commercial bank or other entity whose long-term debt is rated, at the time such
216 agreement or contract is entered into, in one of the two highest rating categories by Moody's
217 Investors Service and Standard & Poor's Ratings Services, a division of the McGraw Hill
218 Companies and (ii) is otherwise acceptable to each rating agency then rating the Notes. No such
219 investments shall have a maturity date later than the maturity date of the Notes. The proceeds of
220 any such investment shall be retained by the Fiscal Agent in the Special Account until all of the
221 Notes have been fully paid, at which time any excess amount shall be paid to the General Fund
222 of the City.

223 Section 7. Sale of Notes. The City Manager or the Administrative Services Director
224 are authorized to effect a negotiated sale of the Notes to one or more investors pursuant to a
225 private placement, including the execution of a note purchase agreement or other sale documents
226 and to take any other actions relating thereto as are necessary or desirable; provided that if there
227 is any fee payable to the purchaser in connection with the purchase of the Notes, such fee shall
228 not exceed 1.00% of the principal amount of the Notes. The purchasers of the Notes shall be
229 required execute the investor letter attached hereto as Exhibit B.

230 Section 8. Execution of Notes. The City Manager, the Administrative Services
231 Director, or the designee of either, is hereby authorized to sign the Notes by manual or facsimile
232 signature, and the City Clerk is hereby authorized to countersign the same by manual or
233 facsimile signature and to affix the seal of the Council thereto by facsimile impression thereof
234 Said signing, countersigning and sealing shall constitute a valid and sufficient execution of the
235 Notes; provided that at least one of the aforesaid signatures is manual. The City Manager, the
236 Administrative Services Director, or the designee of either, are hereby authorized to cause the
237 blank spaces thereof to be filled in as may be appropriate, and to deliver the Notes to the order of
238 the successful bidder.

239 Section 9. Delivery of Notes and Related Documents; Ratification of Prior Acts. The
240 proper officers of the City are hereby authorized and directed to sign and deliver the Notes to the
241 purchasers thereof in accordance with the provisions of this Resolution. All actions heretofore
242 taken by the officers and agents of the City with respect to the sale and issuance of the Notes are
243 hereby approved, confirmed and ratified, and the City Manager, the Administrative Services
244 Director, or the designee of either, are hereby authorized and directed, for and in the name and
245 on behalf of the City, to do any and all things and execute and deliver any and all certificates,
246 agreements and other documents (including note purchase agreement with the initial purchaser of
247 the notes and a fiscal agent agreement with a commercial bank or trust company acceptable to
248 such officers) which they, or any of them, may deem necessary or advisable in order to
249 consummate the lawful issuance and delivery of the Notes in accordance with this Resolution.

250 Section 10. Representations and Recitals Correct. It is hereby covenanted and
251 warranted by the City that all representations and recitals contained in this Resolution are true
252 and correct, and that the City, and its appropriate officials, have duly taken all proceedings

253 necessary to be taken by them, and will take any additional proceedings necessary to be taken by
254 them, for the levy, collection and enforcement of the taxes, revenue, cash receipts and other
255 moneys pledged hereunder in accordance with the law and for carrying out the provisions of this
256 Resolution.

257 Section 11. Tax Covenant. The City hereby covenants with the owners of the Notes
258 that, notwithstanding any other provisions of this Resolution, it will make no use of the proceeds
259 of the Notes or of any other amounts, regardless of the source, or of any property or take any
260 action, or refrain from taking any action, that would cause the Notes to be "arbitrage bonds"
261 within the meaning of Section 148 of the Internal Revenue Code, including the payment to the
262 United States of America of any rebate due with respect to the Notes. The City will not make
263 any use of the proceeds of the Notes or any other funds of the City, or take or omit to take any
264 other action, that would cause the Notes to be "private activity bonds" within the meaning of
265 Section 141 of the Internal Revenue Code, or "federally guaranteed" within the meaning of
266 Section 149(b) of the Internal Revenue Code. To that end, so long as any Notes are unpaid, the
267 City, with respect to such proceeds and such other funds, will comply with all requirements of
268 such Sections and all regulations of the United States Department of the Treasury issued
269 thereunder and under Section 103 of the Internal Revenue Code of 1954, as amended, to the
270 extent such requirements are, at the time, applicable and in effect. These covenants shall survive
271 the payment in full or defeasance of the Notes.

272 Section 12. Inconsistencies Waived. Any provisions of any ordinances and
273 resolutions herewith are hereby waived to the extent only of such inconsistency.

274 Section 13. Effective Date. This Resolution shall be effective immediately.

275
276 AYES:

277 NOES:

278 ABSTAIN/ABSENT:

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280

281

282

283 ATTEST:

284

285

286 _____
SUSAN SNEDDON, City Clerk

JACK GINGLES, Mayor

287

EXHIBIT A

FORM OF NOTE

THE OWNER OF THIS NOTE IS INTENDED TO BE ONLY A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN THE RESOLUTION (AS DEFINED BELOW) THAT HAS EXECUTED AND DELIVERED TO THE FISCAL AGENT AND THE CITY AN INVESTOR LETTER (AS DEFINED IN THE RESOLUTION) AND ANY TRANSFER OF THE REGISTERED OWNERSHIP OF THIS NOTE MAY ONLY BE TO A QUALIFIED INSTITUTIONAL BUYER THAT HAS EXECUTED AND DELIVERED TO THE FISCAL AGENT AN INVESTOR LETTER AS REQUIRED BY THE RESOLUTION AND ANY SUCH TRANSFEREE, BY THE ACCEPTANCE OF THIS NOTE, REPRESENTS THAT IT IS A QUALIFIED INSTITUTIONAL BUYER AND HAS EXECUTED THE INVESTOR LETTER REQUIRED BY THE RESOLUTION.

**Registered
No. R-1**

\$ _____

**CITY OF CALISTOGA, CALIFORNIA
2011-12 TAX AND REVENUE ANTICIPATION NOTE**

RATE OF INTEREST	NOTE DATE	MATURITY DATE	CUSIP
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PRINCIPAL SUM:

REGISTERED OWNER:

FOR VALUE RECEIVED, the City of Calistoga (the "City" and, in its capacity as fiscal agent, the "Fiscal Agent"), State of California acknowledges itself indebted to and promises to pay to the holder hereof at City Hall the principal sum shown above in lawful money of the United States of America, on the date shown above, together with interest thereon at the rate per annum shown above in like lawful money from the date hereof until payment in full of said principal sum. Interest on this Note due prior to maturity shall be payable to the registered owner hereof by mail at the address shown on the registration books of the Fiscal Agent as of the close of business on the 15th calendar day prior to the interest payment date with respect to such interest or, so long as this note is registered in the name of Cede & Co., by wire transfer to an account in the United States designated by Cede & Co. The principal of and interest on this note due at maturity shall be payable to the holder hereof upon surrender as the same shall fall due; provided, however, no interest shall be payable for any period after maturity during which the holder hereof fails to properly present this note for payment.

It is hereby certified, recited and declared that this note is one of an authorized issue of notes in the aggregate principal amount of _____ Dollars (\$_____), all of like tenor made, executed and given pursuant to and by authority of an Resolution of the City Council duly adopted on July 20, 2010 (the "Resolution"), under and by authority of Article 7.6 (commencing with Section 53850) of Chapter 4, Part 1, Division 2, Title 5, California Government Code, and that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this note have existed, happened and been performed in regular and due time, form and manner as required by law, and that this note, together with all other indebtedness and obligations of the City, does not exceed any limit prescribed by the Constitution or statutes of the State of California.

The principal amount of the notes, together with the interest thereon, shall be payable from taxes, income, revenue, cash receipts and other moneys which are received by the General Fund of the City for Fiscal Year 2011-12. As security for the payment of the principal of and interest on the notes the City has pledged: (i) an amount equal to one hundred percent (100%) of the principal amount of the Notes from the first unrestricted moneys on deposit with the City in the month ending June 30, 2012; and (ii) an amount sufficient to pay interest on the Notes from the first of such moneys to be received in the month ending June 30, 2012 (collectively, such pledged amounts being hereinafter called "Pledged Moneys"), and the principal of the notes and interest thereon shall constitute a first lien and charge on the Pledged Moneys and shall be payable from such Pledged Moneys, and to the extent not so paid shall be paid from any other moneys of the City lawfully available therefor.

This note is transferable by the Registered Owner hereof in person or by his attorney duly authorized in writing at the office of the Fiscal Agent, but only in the manner, subject to the limitations in the Resolution and this note, and upon surrender and cancellation of this note. Upon such transfer a new note or notes of authorized denominations and for the same aggregate principal amount will be issued to the transferees in exchange therefor.

The City and the Fiscal Agent may deem and treat the Registered Owner hereof as the absolute owner hereof for the purpose of receiving payment of or on account of principal hereof and interest due hereon and for all other purposes, and neither the City nor the Fiscal Agent shall be affected by any notice to the contrary.

IN WITNESS WHEREOF, the City of Calistoga has caused this note to be executed by the manual or facsimile signature of the City Administrator and countersigned by the manual or facsimile signature of the City Clerk, and caused a facsimile of its official seal to be reproduced hereon by facsimile this ___ day of _____ 2011.

CITY OF CALISTOGA

By: _____
Administrative Services Director Bill Mushallo

(Seal)

Countersigned:

Susan Sneddon, City Clerk

EXHIBIT B
FORM OF INVESTOR LETTER

[Date]

City of Calistoga
Calistoga, California

Hawkins Delafield & Wood LLP
San Francisco, California

Re: CITY OF CALISTOGA, CALIFORNIA
2011-12 TAX AND REVENUE ANTICIPATION NOTE

Ladies and Gentlemen:

The undersigned (the "Investor") hereby acknowledges receipt of the above-referenced notes (the "Notes"). The Notes have been executed by the City pursuant to the terms of a Resolution of the City Council, adopted June 21, 2011 (the "Resolution"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

The Investor will provide the Fiscal Agent with the following information: a) the Investor's Social Security Number or Tax Identification Number; b) a signed IRS Form W-9; c) the Investor's mailing address; and d) payment instructions.

The undersigned acknowledges that the Notes were delivered for the purpose of financing anticipated cash flow needs of the City.

In connection with the sale of the Notes to the Investor, the Investor hereby makes the following representations upon which you may rely:

1. The Investor has authority to purchase the Notes and to execute this letter and any other instruments and documents required to be executed by the Investor in connection with the purchase of the Notes.

2. The Investor is a "Qualified Institutional Buyer" and has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations and is capable of evaluating the merits and risks of its investment in the Notes. The Investor is able to bear the economic risk of, and entire loss of, an investment in the Notes. The definition of Qualified Institutional Buyer is attached hereto.

3. The Notes are being acquired by the Investor for investment and not with a view to, or for resale in connection with, any distribution of the Notes, and the Investor intends to hold the Notes for its own account and for an indefinite period of time, and does not intend at this time to dispose of all or any part of the Notes. The Investor understands that it may need to bear

the risks of this investment for an indefinite time, since any sale prior to maturity may not be possible.

4. The Investor understands that the Notes are not registered under the 1933 Act and that such registration is not legally required as of the date hereof; and further understands that the Notes (a) are not being registered or otherwise qualified for sale under the "Blue Sky" laws and regulations of any state, (b) will not be listed in any stock or other securities exchange, (c) will not carry a rating from any rating service and (d) will be delivered in a form which may not be readily marketable.

5. The Investor has authority to purchase the Notes and to execute this letter and any other instruments and documents required to be executed by the Investor in connection with the purchase of the Notes. The undersigned is a duly appointed, qualified and acting officer of the Investor and is authorized to cause the Investor to make the certificates, representations and warranties contained herein by execution of this letter on behalf of the Investor.

6. The Investor acknowledges that it has either been supplied with or been given access to information, including financial statements and other financial information, to which a reasonable investor would attach significance in making investment decisions, and the Investor has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning the City and the Notes and the security therefor so that, as a reasonable investor, the Investor has been able to make a decision to purchase the Notes.

7. The Investor acknowledges that the obligations of the City to make debt service payments with the Notes are limited obligations payable solely from taxes, income, revenue, cash receipts and other moneys which are received by the General Fund of the City for Fiscal Year 2011-12 and other legally available funds.

8. The Investor has made its own inquiry and analysis with respect to the Notes and the security therefor, and other material factors affecting the security and payment of the Notes. The Investor is aware that the City's finances are subject to certain economic variables and risks that could adversely affect the security for the Notes.

9. The Investor acknowledges that its right to sell and transfer the Notes is subject to the delivery to the Fiscal Agent and the City of an investor's letter from the transferee to the same effect as this Investor's Letter, with no revisions except as may be approved in writing by the City. Failure to deliver such investor's letter to the Fiscal Agent and the City shall cause the purported transfer to be null and void. The Investor agrees to indemnify and hold harmless the City with respect to any claim asserted against the City that is based upon the sale, transfer or other disposition of the Notes in violation of the provisions hereof.

10. Neither the Fiscal Agent, Hawkins Delafield & Wood LLP ("Bond Counsel"), Brandis Tallman as consultant to the City, its members, its governing body, or any of its employees, counsel or agents will have any responsibility to the Investor for the accuracy or completeness of information obtained by the Investor from any source regarding the City or its financial condition or regarding the Notes, the provision for payment thereof, or the sufficiency of any security therefore. The Investor acknowledges that, as between the Investor and all of such parties, the Investor has assumed responsibility for obtaining such information and making

such review as the Investor deemed necessary or desirable in connection with its decision to purchase the Notes.

[Paragraphs 11-14 only apply to the initial purchasers of the Notes.]

11. The Notes are being purchased in a direct, private placement transaction and the terms of the sale and purchase have been established through negotiations between the Investor and the City in an arm's-length transaction.

12. The aggregate price for the Notes, established as described above, to be paid by the Investor, pursuant to the terms of this letter, is an amount equal to ___% of the aggregate principal amount of the Notes.

13. As of the date hereof, the price at which the Investor agreed to buy the Notes was, to the best knowledge and judgment of the Investor, the fair market value of the Notes. The Investor acknowledges that such price will be relied on by Bond Counsel as the "issue price" for establishing the yield on the Notes, and other federal tax requirements based upon the issue price of the Notes.

14. The Investor is purchasing the Notes for its own account [and will not receive a fee in connection with such purchase.] If the Investor transfers, sells or disposes of the Notes, or any interest in the Notes, either (a) such transfer of any interest in the Notes will not occur within 60 days of the date hereof, during which time the Notes will be held exclusively for our own account and not subject to contractual arrangement for such transfer, or (b) such transfer of the Notes, or interest therein, will be at a price or prices that, in the aggregate (and taking into account any interest in the Notes not transferred), is not in excess of ___, unless Bond Counsel provides a written opinion that the failure to satisfy this paragraph will not adversely affect the exclusion from gross income of interest on the Notes.

We understand that the foregoing information will be relied upon by the City with respect to certain representations in the Tax Certificate dated as of the date hereof or the Exhibits thereto and by Bond Counsel in connection with its opinion as to the exclusion of the interest on the Bonds from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended.

Very truly yours,

Signature: _____

Name: _____
Social Security Number: _____
Mailing Address: _____
Payment Instructions: _____

Attachment to Investor Letter

Exhibit A

Qualified Institutional Buyer Definition

A "qualified institutional buyer" as defined in Rule 144A promulgated under the Securities Act of 1933, as in effect on the date hereof, consisting of:

1. Any of the following entities, acting for its own account or the accounts of other Qualified institutional buyers, that in the aggregate owns and invests on a discretionary basis at least \$100 million in securities of issuers that are not affiliated with the entity:

(A) Any insurance company as defined in Section 2(13) of the Securities Act of 1933, as amended;

NOTE: A purchase by an insurance company for one or more of its separate accounts, as defined by Section 2(a)(37) of the Investment Company Act of 1940 (the "Investment Company Act"), which are neither registered under Section 8 of the Investment Company Act nor required to be so registered, shall be deemed to be a purchase for the account of such insurance company.

(B) Any investment company registered under the Investment Company Act or any business development company as defined in Section 2(a)(48) of that Act;

(C) Any Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958;

(D) Any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees;

(E) Any employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974;

(F) Any trust fund whose trustee is a bank or trust company and whose participants are exclusively plans of the types identified in paragraph 1(D) or (E) of this section, except trust funds that include as participants individual retirement accounts or H.R. 10 plans;

(G) Any business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940;

(H) Any organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), corporation (other than a bank as defined in Section 3(a)(2) of the Securities Act of 1933, as amended, or a savings and loan association or other institution referenced in Section 3(a)(5)(A) of the Securities Act of 1933, as amended, or a foreign bank or savings and loan association or equivalent institution), partnership, or Massachusetts or similar business trust; and

(I) Any investment adviser registered under the Investment Advisers Act.

2. Any dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934, acting for its own account or the accounts of other qualified institutional buyers, that in the aggregate owns and invests on a discretionary basis at least \$10 million of securities of issuers that are not affiliated with the dealer, provided, that securities constituting the whole or a part of an unsold allotment to or subscription by a dealer as a participant in a public offering shall not be deemed to be owned by such dealer.

3. Any dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934 acting in a riskless principal transaction on behalf of a qualified institutional buyer.

NOTE: A registered dealer may act as agent, on a non-discretionary basis, in a transaction with a qualified institutional buyer without itself having to be a qualified institutional buyer.

4. Any investment company registered under the Investment Company Act, acting for its own account or for the accounts of other qualified institutional buyers, that is part of a family of investment companies which own in the aggregate at least \$100 million in securities of issuers, other than issuers that are affiliated with the investment company or are part of such family of investment companies. "Family of investment companies" means any two or more investment companies registered under the Investment Company Act, except for a unit investment trust whose assets consist solely of shares of one or more registered investment companies, that have the same investment adviser (or, in the case of unit investment trusts, the same depositor), provided that, for purposes of this section:

(A) Each series of a series company (as defined in Rule 18f-2 under the Investment Company Act: 17 CFR 270.18f-2) shall be deemed to be a separate investment company; and

(B) Investment companies shall be deemed to have the same adviser (or depositor) if their advisers (or depositors) are majority-owned subsidiaries of the same parent, or if one investment company's adviser (or depositor) is a majority-owned subsidiary of the other investment company's adviser (or depositor).

5. Any entity, all of the equity owners of which are qualified institutional buyers, acting for its own account or the accounts of other qualified institutional buyers.

6. Any bank as defined in Section 3(a)(2) of the Securities Act of 1933, as amended, any savings and loan association or other institution as referenced in Section 3(a)(5)(A) of the Securities Act of 1933, as amended, or any foreign bank or savings and loan association or equivalent institution, acting for its own account or the accounts of other qualified institutional buyers, that in the aggregate owns and invests on a discretionary basis at least \$100 million in securities of issuers that are not affiliated with it and that has an audited net worth of at least \$25 million as demonstrated in its latest annual financial statements, as of a date not more than 16 months preceding the date of sale under the rule in the case of a U.S. bank or savings and loan association, and not more than 18 months preceding such date of sale for a foreign bank or savings and loan association or equivalent institution.

In determining the aggregate amount of securities owned and invested on a discretionary basis by an entity, the following instruments and interests shall be excluded: bank deposit notes

and certificates of deposit; loan participations; repurchase agreements; securities owned but subject to a repurchase agreement; and currency, interest rate and commodity swaps.

The aggregate value of securities owned and invested on a discretionary basis by an entity shall be the cost of such securities, except where the entity reports its securities holdings in its financial statements on the basis of their market value, and no current information with respect to the cost of those securities has been published. In the latter event, the securities may be valued at market for purposes of this section.

In determining the aggregate amount of securities owned by an entity and invested on a discretionary basis, securities owned by subsidiaries of the entity that are consolidated with the entity in its financial statements prepared in accordance with generally accepted accounting principles may be included if the investments of such subsidiaries are managed under the direction of the entity, except that, unless the entity is a reporting company under Section 13 or 15(d) of the Securities Exchange Act of 1934, securities owned by such subsidiaries may not be included if the entity itself is a majority-owned subsidiary that would be included in the consolidated financial statements of another enterprise.

For purposes of this section, "riskless principal transaction" means a transaction in which a dealer buys a security from any person and makes a simultaneous offsetting sale of such security to a qualified institutional buyer, including another dealer acting as riskless principal for a qualified institutional buyer.

CITY OF CALISTOGA, CALIFORNIA
2011-12 TAX AND REVENUE ANTICIPATION NOTES

Certified Copy of the Resolution
Adopted on June 21, 2011

I, Susan Sneddon, hereby certify that I am the City Clerk of the City of Calistoga, California (the "City"), a political subdivision organized and existing under and by virtue of the laws of the State of California and that as such I am authorized to execute this Certificate on behalf of the City.

I hereby further certify that attached hereto is a true, correct and complete copy of a resolution which was duly adopted by the City Council of the City at a meeting thereof which was duly called and held on June 21, 2011, and at such meeting a quorum was present and acting throughout, and that said Resolution No. _____ has not been modified, amended, rescinded or revoked since the date of adoption and is now in full force and effect.

Dated: _____, 2011.

CITY OF CALISTOGA, CALIFORNIA

By: _____
City Clerk and
Clerk of the Council of the
City of Calistoga