

City of Calistoga

Staff Report

TO: Honorable Mayor and City Council
FROM: Gloria Leon, Administrative Services Director
 Dylan Feik, City Manager
DATE: April 5, 2016
SUBJECT: Consideration of a Resolution regarding a rate reset of the City's 2007 Lease Agreement.

APPROVAL FOR FORWARDING:



Dylan Feik, City Manager

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2 **ISSUE:** Consideration of three (3) options regarding a rate reset of the City's 2007 Lease
3 Agreement with WestAmerica Bank.
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5 **RECOMMENDATION:** City Council authorizes City staff to continue discussions with
6 Brandis Tallman LLC ("BTLLC") for the purpose of resetting the interest rate on the City's
7 existing 2007 Capital Improvement Project Lease (the "2007 Lease").
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9 **BACKGROUND:** In 2007, the City entered into the 2007 Lease with WestAmerica Bank
10 for the purpose of financing the acquisition, construction, and improvement of public
11 capital improvements, including a community pool, renovation and expansion of a fire
12 station, public recreational facilities, public works facility projects, and a teen center. The
13 2007 Lease was issued in the original principal amount of \$4,674,000 with a final maturity
14 of February 1, 2028 and an interest rate of 4.95%. The debt service on the 2007 Lease is
15 currently paid semi-annually. The 2007 Lease has approximately \$3.8 million outstanding
16 and is redeemable on any date with a 0.5% reset premium.
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18 Because lower interest rates can be achieved today, BTLLC worked with the staff and
19 Municipal Finance Corporation ("MFC"), WestAmerica Bank's representative, to discuss
20 the possibility of a rate reset of the 2007 Lease. A rate reset with the original lender
21 significantly minimizes the overall costs of the transaction and is a more economic
22 approach than a full refunding. To get a more aggressive rate, the City requested monthly
23 payments. Based on a monthly payment schedule, WestAmerica Bank has proposed and
24 locked-in a rate of 2.44_[MPBI]%.

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26 Throughout February and March of 2016, the City and BTLLC reviewed different options
27 to reset the 2007 Lease. The City also requested to see the potential savings results if
28 one-time cash contributions were used to buy down a portion of the lease principal at the
29 time of refunding. Per staff's request, BTLLC prepared three different scenarios. All three
30 scenarios, summarized below, reflect monthly debt service payments at an interest rate
31 of 2.44%:

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33 **Scenario 1 - No cash contribution.** The outstanding par amount to be refunded is
34 \$3,870,414. The City's new fiscal year debt service would be approximately \$374,000
35 and fiscal year savings would be approximately \$52,400 per year. Total cash flow
36 savings are approximately \$620,000 and net present value savings are \$518,000 or
37 13.54%.

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39 **Scenario 2 - \$250,000 cash contribution.** With a cash contribution of \$250,000,
40 the par amount to be refunded is reduced to \$3,620,414. The City's new fiscal year debt
41 service would be approximately \$347,000 and fiscal year savings would be approximately
42 \$78,800 per year. Total savings are approximately \$660,000 (after subtracting the cash
43 contribution made at closing) and net present value savings are \$518,000 or 13.54%.

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45 **Scenario 3 - \$450,000 cash contribution.** With a cash contribution of \$450,000,
46 the par amount to be refunded is \$3,420,414. The City's new fiscal year debt service
47 would be approximately \$326,000 and fiscal year savings would be approximately
48 \$100,000 per year. Total savings are approximately \$693,000 (after subtracting the cash
49 contribution made at closing) and net present value savings are \$518,000 or 13.54%.

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51 **DISCUSSION:** Staff recommends approval of a rate reset for the 2007 Lease Obligation.
52 Council consideration is whether a one-time cash contribution should be applied.

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54 **FISCAL IMPACT:** The cost of issuance is approximately \$47,000 which will be included
55 in the overall refunding of the 2007 Lease obligation. However, the significantly reduced
56 interest rate will result in annual savings of approximately \$52,400 for the next 12 years.

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58 **ATTACHMENTS:**

- 59 1. Draft Resolution
60 2. City of Calistoga Rate Reset Scenarios (provided by Brandis Tallman LLC)
61 3. Brandis Tallman Rate Reset Agent Agreement
62 4. Urban Futures Inc. Engagement Letter
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48 with all subordinate entities of the City, do not reasonably expect to issue during the
49 calendar year in which the Amendment is issued more than \$10,000,000 of obligations
50 which it could designate as “qualified tax-exempt obligations” under Section 265(b) of
51 the Code.

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53 **SECTION 5. Effect.** This Resolution shall take effect immediately upon its
54 passage.

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56 **PASSED AND ADOPTED** by the City Council of the City of Calistoga at a regular
57 meeting held this **5th day of April, 2016**, by the following vote:

- 58
59 **AYES:**
60 **NOES:**
61 **ABSTAIN:**
62 **ABSENT:**

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68 **CHRIS CANNING, Mayor**

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KATHY FLAMSON, City Clerk