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

ISSUE: Consideration of three (3) options regarding a rate reset of the City's 2007 Lease Agreement with WestAmerica Bank.

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> **RECOMMENDATION:** City Council authorizes City staff to continue discussions with Brandis Tallman LLC ("BTLLC") for the purpose of resetting the interest rate on the City's existing 2007 Capital Improvement Project Lease (the "2007 Lease").

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BACKGROUND: In 2007, the City entered into the 2007 Lease with WestAmerica Bank for the purpose of financing the acquisition, construction, and improvement of public capital improvements, including a community pool, renovation and expansion of a fire station, public recreational facilities, public works facility projects, and a teen center. The 2007 Lease was issued in the original principal amount of \$4,674,000 with a final maturity of February 1, 2028 and an interest rate of 4.95%. The debt service on the 2007 Lease is currently paid semi-annually. The 2007 Lease has approximately \$3.8 million outstanding and is redeemable on any date with a 0.5% reset premium.

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23 24 Because lower interest rates can be achieved today, BTLLC worked with the staff and Municipal Finance Corporation ("MFC"), WestAmerica Bank's representative, to discuss the possibility of a rate reset of the 2007 Lease. A rate reset with the original lender significantly minimizes the overall costs of the transaction and is a more economic approach than a full refunding. To get a more aggressive rate, the City requested monthly payments. Based on a monthly payment schedule, WestAmerica Bank has proposed and locked-in a rate of 2.44 IMPBIT%.

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

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

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

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

<u>DISCUSSION</u>: Staff recommends approval of a rate reset for the 2007 Lease Obligation. Council consideration is whether a one-time cash contribution should be applied.

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

ATTACHMENTS:

- 59 1. Draft Resolution
 - 2. City of Calistoga Rate Reset Scenarios (provided by Brandis Tallman LLC)
- 3. Brandis Tallman Rate Reset Agent Agreement
- 4. Urban Futures Inc. Engagement Letter

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RESOLUTION NO. 2016 - XXX

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CALISTOGA, COUNTY OF NAPA, STATE OF CALIFORNIA, AUTHORIZING REFINANCING OF AN EXISTING LEASE AGREEMENT, THE EXECUTION AND DELIVERY OF A FIRST AMENDMENT TO LEASE AGREEMENT AND AUTHORIZING AND DIRECTING CERTAIN ACTIONS IN CONNECTION THEREWITH

WHEREAS, the City of Calistoga (the "City") is a municipal corporation duly organized and existing under and pursuant to the Constitution and laws of the State of California; and

WHEREAS, the City desires to provide for the refinancing of that certain Lease Agreement dated as of November 19, 2007 (the "Lease Agreement"), by and between the City and the Calistoga Public Facilities Corporation (the "Corporation"), which Lease Agreement was assigned to Westamerica Bank (the "Bank") pursuant to an Assignment Agreement dated as of November 19, 2007 between the Corporation and the Bank; and

WHEREAS, the Bank has proposed a cost-effective arrangement to refinance the outstanding principal balance of the Lease Agreement as of May 1, 2016 in the amount of \$3,822,799.45 at a 2.44% interest rate, together with a prepayment premium and costs of issuance in an amount not to exceed \$50,000.00;

NOW, THEREFORE, it is resolved by the City Council of the City of Calistoga as follows:

SECTION 1. First Amendment to Lease Agreement. The Mayor, the City Manager or a designee (each an "Authorized Officer") is hereby authorized and directed to enter into a First Amendment to Lease Agreement (the "Amendment") with the Corporation and the Bank to refinance the Lease Agreement, subject to approval as to form by the City Attorney.

SECTION 2. Attestations. The City Clerk or other appropriate City officer is hereby authorized and directed to attest the signature of the Authorized Officer and to affix and attest the seal of the City, as may be required or appropriate in connection with the execution and delivery of the Amendment.

SECTION 3. Other Actions. The Authorized Officer is hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all agreements, documents and certificates which they may deem necessary or advisable in order to carry out, give effect to and comply with the terms of this Resolution and the Amendment. Such actions are hereby ratified, confirmed and approved.

SECTION 4. Qualified Tax-Exempt Obligations. The Amendment is hereby designated as "qualified tax exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The City, together

with all subordinate entities of the City, do not reasonably expect to issue calendar year in which the Amendment is issued more than \$10,000,000 of the calendar year.	-
which it could designate as "qualified tax-exempt obligations" under Section	•
the Code.	
SECTION 5. Effect. This Resolution shall take effect immediately	upon its
passage.	
PASSED AND ADOPTED by the City Council of the City of Calistoga at a reg	ular
meeting held this 5 th day of April, 2016, by the following vote:	a.a.
meeting neighbor and contributing to the	
AYES:	
NOES:	
ABSTAIN:	
ABSENT:	
	
CHRIS CANNING, Mayor	
ATTEST:	
KATHY FLAMSON, City Clerk	