

City of Calistoga

Staff Report

TO: Honorable Mayor and City Council
FROM: Dylan Feik, City Manager
DATE: August 16, 2016
SUBJECT: Authorization to engage proposed finance team for the purposes of refinancing the City's outstanding Series 2001B Wastewater Revenue Bonds and 2005 USDA loan for interest rate savings

APPROVAL FOR FORWARDING:



Dylan Feik, City Manager

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2 **ISSUE:** Consideration to authorize the city manager to engage the proposed
3 finance team for purposes of refinancing the City's outstanding Series 2001B
4 Wastewater Revenue Bonds and 2005 USDA loan for interest rate savings
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6 **RECOMMENDATION:** It is recommended that the City Council authorize staff to
7 engage its financing team and to take the necessary steps to complete the
8 refinancing of the 2001 Wastewater Revenue Refunding Bonds for interest rate
9 savings.
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11 Should Council accept and authorize staff to proceed, the finance team (as
12 described below) will proceed with the refinancing and will return to Council at a
13 later date for final authorization to issue the bonds.
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15 **BACKGROUND:** The City entered into an installment purchase agreement,
16 dated August 1, 2001 between the City and the California Statewide
17 Communities Development Authority (CSCDA) wherein the Authority sold a pool
18 of water and wastewater revenue bonds. A portion of the proceeds of the
19 Authority's revenue bonds, in an original amount of \$3.5 million where provided
20 to the City to finance expansion of the City's wastewater treatment plant and
21 other wastewater improvements. In exchange, the City agreed to purchase the

22 plant expansion improvements from the Authority pursuant to the installment
23 agreement. As of August 2016, \$2.445 million remains outstanding with interest
24 rates ranging from 4.8% to 5.125%. The 2001B Bonds were structured as a 30-
25 year obligation (2031) and are currently callable at the outstanding par amount.

26 In May 2005, the City entered into an installment purchase agreement with the
27 Calistoga Public Facilities Financing Corporation for \$2,028,500 wherein the
28 City agreed to make installment payments to the Corporation in exchange for
29 the Corporation obtaining financing to fund wastewater treatment plant
30 improvements by issuing Certificates of Participation.

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32 The United States Department of Agriculture (USDA) provided a \$2,028,500
33 loan to the Corporation to provide financing for the improvements and for the
34 repayment by the City of a \$1,650,000 interim financing construction note and
35 other improvements to the City's wastewater enterprise. The USDA provided the
36 loan by purchasing the Certificates of Participation referred to above. The
37 USDA obligation was structured as a 40-year loan (2045) and based on the
38 City's June 30, 2015 financial statements \$1.784 million remains outstanding
39 with interest rate of 4.25%. The USDA loan is callable at any time at par.

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41 Current bond market interest rates are near historical lows which present an
42 opportunity for the City to refinance the 2001B and USDA loan for debt service
43 savings, which is referred to as a high to low refunding. If the City moves forward
44 with the refinancing, the 2001B and USDA obligation Bonds will be refunded on
45 an "Current Refunding" basis. The proceeds of the 2016 Refunding Bonds will be
46 used to call the 2001B Bonds and to refinance the 2005 USDA loan as a lower
47 interest rate bond obligation of the City.

48 **DISCUSSION:** The 2001B Bonds have a remaining average coupon of a roughly
49 5% and the USDA loan has a fixed interest rate of 4.25%, and with the refunding,
50 the City can achieve borrowing costs right around 3%. It is this difference in
51 borrowing costs that produce the savings. The 2001B Bonds funded a debt
52 service reserve fund with a surety bond reserve policy in the stated amount of
53 \$227,997. The USDA loan has a cash funded reserve of \$105,837 and staff and
54 the proposed financing team are proposing to bring the cash funded reserve in
55 as a source of funds to the refunding and replace the cash funded debt service
56 reserve fund with an insurance policy known as a debt service reserve surety
57 bond. Therefore, the City does not have to borrow for the reserve fund which
58 helps increase the annual savings that is achieved under the refunding of the
59 2001B Bonds and the USDA loan. Under this structure the annual savings to the
60 City is estimated at about \$40,000 per year and cumulatively is in excess of
61 \$1.185 million over the life of the refunding. On a present value basis this
62 equates to approximately \$750,000 dollars equal to 18% savings. The market
63 savings benchmark municipalities often use is to achieve a minimum PV savings
64 threshold of 3%. This financing opportunity presents savings in multiples of this.
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67 Staff is proposing to engage the following financing team which the city manager
68 has utilized with great success on prior bond issues. The proposed team
69 consists of the following:

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- 71 • Gloria Leon, Administrative Services Director
- 72 • Hilltop Securities (Formerly Southwest Securities) as Underwriter
- 73 • Jones Hall as Bond
- 74 • The Weist Law Firm as Disclosure Counsel
- 75 • Urban Futures as Municipal Advisor

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77 Given the size of the issue, and the based on prior experience of the underwriter,
78 staff will structure the refunding bond issue to maximize savings to the City and
79 foster retail investment from the local area by developing a marketing program to
80 include Calistoga residents and the general area.

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82 **CONSISTENCY WITH CITY COUNCIL GOALS AND OBJECTIVES:** The
83 recommended action supports the FY 2016-17 City Council Goal No. 1,
84 Objective 3 which will assist to increase the Water and Wastewater Fund
85 reserves to a minimum of 20% within two fiscal years and increase the CIP and
86 Equipment Replacement Fund reserves to meet anticipated needs over the next
87 three fiscal years.

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89 **FISCAL IMPACT:** The proposed 2016 Bonds will generate estimated cash flow
90 savings of approximately \$1.185 million and present value savings of \$750,000
91 net of all costs of issuance, and the term of the 2016 Bonds will not exceed the
92 term of the USDA obligation being refunded. The source of repayment for the
93 2016 Bonds would be limited to the net revenues of the Wastewater enterprise,
94 and the 2016 Bonds would not be a debt of the City General Fund.

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96 **ATTACHMENTS:**

97 None