

# City of Calistoga

## Staff Report

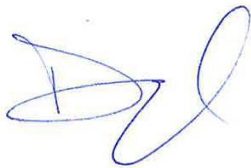
**TO** Calistoga Public Facilities Corporation Board  
**FROM** Dylan Feik, President  
**DATE** April 17, 2018  
**SUBJECT** Adoption of a Resolution of the Board of Directors of the Calistoga Public Facilities Corporation Authorizing the Issuance and Sale of Water and Wastewater Revenue Certificates in the Principal Amount of not to Exceed \$10,000,000 to Refund Certain Obligations of the City of Calistoga and Approving Related Documents and Actions.

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**APPROVAL FOR FORWARDING:**




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**Dylan Feik, President**

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1 **ISSUE:** Adoption of a Resolution of the Board of Directors of the Calistoga Public  
 2 Facilities Corporation Authorizing the Issuance and Sale of Water and Wastewater  
 3 Revenue Certificates in the Principal Amount of not to Exceed \$10,000,000 to Refund  
 4 Certain Obligations of the City of Calistoga and Approving Related Documents and  
 5 Actions.

6 **RECOMMENDATION:** Adopt Resolution and delivery of the 2018 Refunding COPs.

7 **BACKGROUND:** On August 1, 2008, the City issued \$2.511 million of Certificates of  
 8 Participation (the "2008 USDA Bonds) through the Calistoga Public Facilities  
 9 Corporation for the purpose of financing water system improvements. Currently, \$1.729  
 10 million remains outstanding at 4.375%. On November 1, 2005, the California Statewide  
 11 Communities Development Authority (CSCDA) issued \$5.29 million of bonds (the "2005  
 12 CSCDA Bonds) on the City's behalf through a pooled financing for the improvement of  
 13 certain water facilities. Currently, \$3.255 million remains outstanding at an interest rate  
 14 ranging from 4% to 5%.

15 On March 28, 2005, the City issued \$ 2.0285 million of Certificates of Participation (the  
 16 "2005 USDA Bonds) through the Calistoga Public Facilities Corporation for the purpose  
 17 of financing certain wastewater improvements. Currently, \$ 1.689 million remains

18 outstanding at 4.25%. On May 18, 2001, the California Statewide Communities  
 19 Development Authority (CSCDA) issued \$3.5 million in bonds (the “2001 CSCDA  
 20 Bonds) on the City’s behalf through a pooled financing for the purpose of improving  
 21 wastewater facilities. Currently, \$2.23 million remains outstanding at an interest rate  
 22 ranging from 5% to 5.125%.

23 Through this action, if approved, the City through the Calistoga Public facilities  
 24 Corporation will issue 2018 Water and Wastewater Refunding Certificates of  
 25 Participation (“2018 Refunding COPs”) to refinance the following:

26

- 27 • 2001B Wastewater Revenue Bonds issued by CSCDA;
- 28 • 2005 Wastewater Certificates of Participation held by the USDA;
- 29 • 2005D Water Revenue Bonds issued by CSCDA; and
- 30 • 2008 Water Certificates of Participation held by the USDA

31 In total, the City is seeking to refinance roughly \$10 M of outstanding debt for interest  
 32 rate savings.

33 **ANALYSIS/DISCUSSION:** The proposed refinancing seeks to reduce the debt service  
 34 associated with the City’s Water and Wastewater Enterprises through a reduction in  
 35 interest rates. Since the City’s hiring of the financing team in February 2018, the  
 36 interest rate market has been experienced some volatility, but municipal bond rates  
 37 remain near historic lows. Interest rates on the proposed refunding are favorable; the  
 38 City expects to sell its debt with an average interest rate near 3.19%. The 2018  
 39 Refunding COPs are expected to generate debt service savings as described in **Table**  
 40 **1.**

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Table 1: Debt Service Savings<sup>i</sup> (Estimate as of 4/5/2018)

Item	2005 Water Bonds	2008 Water Bonds	2001 Wastewater Bonds	2005 Wastewater Bonds	Total
Average annual debt service savings	\$19,909	\$16,830	\$23,039	\$13,827	\$55,990
Total debt service savings	\$378,276	\$437,568	\$322,552	\$373,335	\$1,511,732
NPV savings	\$283,045	\$147,951	\$259,291	\$120,885	\$811,173
NPV savings as a percentage of refunded principal	8.7%	8.6%	11.6%	7.2%	9.1%

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44 **Table 2 and Attachment A** provide certain costs of the Refunding Bonds per Senate  
45 Bill No. 450.

46 Table 2: Certain Costs of Refunding Bonds<sup>ii</sup>

Item	Estimate as of 4/4/2018
True interest cost of the bonds	3.19%
Finance charge of the bonds	\$310,000
Bond proceeds received by the City	\$8.55 million
Total repayment amount	\$11.9 million plus Annual trustee fee of \$1,500 as long as the 2018 Refunding COPs are outstanding

47  
48 The source of repayment of the 2018 Refunding COPs would be limited to Water and  
49 Wastewater Enterprise revenues. The 2018 Refunding COPs would not be a general  
50 debt of the City, but an obligation limited to the Water and Wastewater Enterprise, with  
51 each enterprise only responsible for its proportionate share of the total obligation based  
52 on the refunding proceeds it used. In addition to the refinancing of four (4) specific  
53 obligations referenced in this report, the City also has \$ 2.9 million of outstanding 2011  
54 COPs payable by the Water enterprise and \$ 2.3 million of an outstanding loan from the  
55 State Revolving Fund payable from the Wastewater enterprise. The 2018 Refunding  
56 COPs will be issued on an equal or parity basis to those respective outstanding  
57 obligations of each enterprise. The outstanding Water obligations require the City to  
58 generate enough revenues (after operating expenses) in the Water enterprise in an  
59 amount equal to 120% of maximum annual debt service on outstanding bonds.

60 If the subject Resolution and financing documents are approved by the City Council, the  
61 underwriter expects to begin marketing the bonds next week. The sale would be  
62 expected to be completed on or about April 26th, with a delivery/closing date on or  
63 about May 9th.

64 **SUMMARY OF THE FINANCING DOCUMENTS:** The subject Resolution being  
65 recommended for adoption authorizes and approves the form of all the foundational  
66 legal documents (the "Financing Documents") necessary to provide for the successful  
67 issuance of the 2018 Refunding COPs. The adoption of the Resolution and Financing  
68 Documents are necessary for the financing team to move forward with completing the  
69 appropriate documentation and credit analysis before entering the market and locking  
70 interest rates.

71 The proposed 2018 Refunding COPs are to be issued as limited obligation bonds,  
72 payable only from net revenues of the Water and Wastewater Enterprise, and therefore,  
73 the City's General Fund will not be exposed to repayment risk.

75 Please note that the Financing Documents are being presented to the City Council in  
76 near final form, as they cannot be fully completed at this time because certain critical  
77 components such as interest rates and annual debt service payments will be  
78 determined at the time the transaction is actually priced (i.e., COPs sold to the  
79 Underwriter). This method of approval is the normal method of approving a bond issue  
80 in California. The individual Financing Documents needed to complete this financing  
81 are included as attachments and are each briefly described below:

- 82 1. Installment Sale Agreement, between the City and the Corporation, under which  
83 the Corporation agrees to providing refinancing for the Prior Projects and to sell  
84 the Prior Projects to the City in consideration of the payment of the Installment  
85 Payments by the City, to be secured by a pro-rata pledge of the net revenues of  
86 the Water System and the Wastewater System.
- 87 2. Trust Agreement, between the City, the Corporation and the Trustee, under  
88 which the Trustee agrees to execute and deliver the Certificates and to apply the  
89 proceeds thereof as directed by the Corporation and the City.
- 90 3. Escrow Agreement, between the City and the escrow bank named therein, under  
91 which the escrow bank agrees to hold certain proceeds of the Certificates and to  
92 use such proceeds for the refunding of the Prior Obligations previously issued by  
93 the Authority.
- 94 4. Preliminary Official Statement: As a necessary prerequisite to the public  
95 marketing and selling of the 2018 Refunding COPs, a Preliminary Official  
96 Statement has been prepared by Disclosure Counsel to the City, with the help of  
97 the Financial Advisor, Underwriter and City staff. This document describes the  
98 City, the refunding, the Water and Wastewater Enterprise, the 2018 Refunding  
99 COPs and the financing documents. Once the COPs pricing and sale is  
100 executed, the final details will be used to fill in the blanks of the Preliminary  
101 Official Statement, which will then be used as the basis for the final Official  
102 Statement.
- 103 5. Bond Purchase Agreement, contains the obligation of the underwriter to accept  
104 and pay for the 2018 Refunding COPs, provided that all of the covenants and  
105 representations of the City are met and certain other conditions excusing  
106 performance by the underwriter do not exist.

107 **FINANCIAL IMPACTS**: With City Council approval, staff expects to issue the Series  
108 2018 Refunding COPs as soon as feasibly possible. The total issuance is expected to  
109 be approximately \$10 million. Based on current interest rates of approximately 3.19%  
110 estimated average annual savings will be approximately \$56,000 through 2045. All  
111 proceeds net of issuance costs will be used to refund the bonds as described in the  
112 discussion section of this report.

114

115 **ATTACHMENTS:**

116 1. Draft Resolution

117 The following documents are available on line or at City Hall upon request:

118 2. Good Faith Estimate

119 3. Trust Agreement

120 4. Installment Sale Agreement

121 5. Escrow Agreement

122 6. Preliminary Official Statement

123 7. Bond Purchase Agreement

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<sup>i</sup> Interest rates will depend on market conditions at the time of pricing

<sup>ii</sup> Interest rates will depend on market conditions at the time of pricing

RESOLUTION NO. 2018-XXX

RESOLUTION OF THE BOARD OF DIRECTORS OF THE CALISTOGA PUBLIC FACILITIES CORPORATION AUTHORIZING THE ISSUANCE AND SALE OF WATER AND WASTEWATER REVENUE CERTIFICATES IN THE PRINCIPAL AMOUNT OF NOT TO EXCEED \$10,000,000 TO REFUND CERTAIN OBLIGATIONS OF THE CITY OF CALISTOGA, AND APPROVING RELATED DOCUMENTS AND ACTIONS

WHEREAS, the City of Calistoga (the "City") owns and operates facilities and property for the supply, treatment and distribution of water (the "Water System") and the collection, treatment and disposal of wastewater within the service area of the City (the "Wastewater System") and the City wishes to provide funds for the refinancing of the cost of improvements to the Water System and the Wastewater System (the "Prior Projects"); and

WHEREAS, the Calistoga Public Facilities Corporation (the "Corporation") has agreed to assist the City in the refinancing of the Prior Projects of the Wastewater System and Water System, and in order to provide funds for such purposes the Corporation and the City have proposed to enter into a Trust Agreement with MUFJG Union Bank, N.A., as trustee (the "Trustee") under which the Trustee will execute and deliver 2018 Water and Wastewater Revenue Certificates of Participation (the "Certificates"), which evidence direct, undivided fractional interests of the owners thereof in Installment Payments (the "Installment Payments") to be made by the City under an Installment Sale Agreement with the Corporation; and

WHEREAS, the Installment Payments will be secured by a pledge of and lien on the net revenues of the Water System and the Wastewater System;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Calistoga Public Facilities Corporation as follows:

Section 1. Approval of Financing Plan and Related Documents. The Board of Directors hereby approves the delivery and sale of the Certificates in the aggregate principal amount of not to exceed \$10,000,000 for the purpose of providing funds to refinance the Prior Projects. To that end, the Board of Directors hereby approves each of the following financing documents in substantially the respective forms on file with the Treasurer, together with any changes therein or additions thereto approved by the Treasurer:

- Installment Sale Agreement, between the City and the Corporation, under which the Corporation agrees to providing refinancing for the Prior Projects and to sell the Prior Projects to the City in consideration of the payment of the Installment Payments by the City, to be secured by a pledge of the net revenues of the Water System and the Wastewater System.
• Trust Agreement, among the City, the Corporation and the Trustee, whereby the Trustee agrees to execute and deliver the Certificates.

51 The President, the Treasurer and the Secretary are each individually authorized  
52 and directed for and in the name and on behalf of the Corporation to execute the final  
53 form of each of the foregoing documents. The schedule of Installment Payments  
54 attached to the Installment Sale Agreement shall correspond to the payments of  
55 principal and interest represented by the Certificates, to be determined upon the sale  
56 thereof as set forth in Section 2.

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58 **Section 2. Sale of Certificates of Participation.** The Board of Directors  
59 hereby approves the sale of the Certificates by negotiation with Hilltop Securities Inc., as  
60 underwriter (the "Underwriter") under a Purchase Contract between the City and the  
61 Underwriter in the form on file with on file with the Treasurer, together with any changes  
62 therein or additions thereto approved by the Treasurer, whose execution thereof shall be  
63 conclusive evidence of such approval. The amount of Underwriter's discount for the  
64 Certificates shall be not more than 0.75% of the par amount thereof and the net present  
65 value of savings achieved by sale of the Certificates shall be at least 3.00%. The  
66 Treasurer is hereby authorized and directed for and in the name and on behalf of the  
67 Corporation to execute and thereby acknowledge the final form of the Purchase  
68 Contract.

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70 **Section 3. Official Actions.** The President, the Treasurer, the Secretary, and  
71 all other officers of the Corporation, are authorized and directed in the name and on  
72 behalf of the Corporation to make any and all assignments, certificates, requisitions,  
73 agreements, notices, consents, instruments of conveyance, warrants and other  
74 documents, which they or any of them deem necessary or appropriate in order to  
75 consummate any of the transactions contemplated by the agreements and documents  
76 approved under this Resolution. Whenever in this Resolution any officer of the  
77 Corporation is directed to execute or countersign any document or take any action, such  
78 execution, countersigning or action may be taken on behalf of such officer by any person  
79 designated by such officer to act on his or her behalf if such officer is absent or  
80 unavailable.

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82 **Section 4. Effective Date.** This Resolution shall take effect from and after the  
83 date of its passage and adoption.

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85 The foregoing Resolution was duly and regularly introduced, passed, and  
86 adopted by the Board of Directors of the Calistoga Public Facilities Corporation at a  
87 regular meeting thereof held on \_\_\_\_\_, 2018.

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89 **AYES:**  
90 **NOES:**  
91 **ABSTAIN:**  
92 **ABSENT:**

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95 **Chris Canning, Chairman**

96 **Attest:**

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99 **Kathy Flamson, Secretary**

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