

City of Calistoga

Staff Report

TO Honorable Mayor and City Council
FROM Dylan Feik, City Manager
DATE April 17, 2018
SUBJECT Adoption of a Resolution Authorizing the Execution of an Installment Sale Agreement, Trust Agreement and Escrow Agreement in Connection with the Issuance and Sale of Certificates of Participation for the Purpose of Refinancing the Costs of Water and Wastewater System Improvement Projects, Approving and Official Statement and Related Matters.

APPROVAL FOR FORWARDING:



Dylan Feik, City Manager

1 **ISSUE:** Adoption of a Resolution Authorizing the Execution of an Installment Sale
2 Agreement, Trust Agreement and Escrow Agreement in Connection with the Issuance
3 and Sale of Certificates of Participation for the Purpose of Refinancing the Costs of
4 Water and Wastewater System Improvement Projects, Approving and Official Statement
5 and Related Matters

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.**

41

Table 1: Debt Service Savingsⁱ (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%

42

43

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 Bondsⁱⁱ

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; and

121 5. Escrow Agreement

122 6. Preliminary Official Statement.

123 7. Bond Purchase Agreement

ⁱ Interest rates will depend on market conditions at the time of pricing

ⁱⁱ Interest rates will depend on market conditions at the time of pricing

RESOLUTION NO. 2018 - XXX

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CALISTOGA
AUTHORIZING THE EXECUTION OF AN INSTALLMENT SALE AGREEMENT,
TRUST AGREEMENT AND ESCROW AGREEMENT IN CONNECTION WITH
THE ISSUANCE AND SALE OF CERTIFICATES OF PARTICIPATION FOR THE
PURPOSE OF REFINANCING THE COSTS OF WATER AND WASTEWATER
SYSTEM IMPROVEMENT PROJECTS, APPROVING AN OFFICIAL
STATEMENT AND RELATED MATTERS**

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, for the Wastewater System the City previously entered into:

(i) an Installment Purchase Agreement, dated as of August 1, 2001 (the "2001 Wastewater Installment Purchase Agreement") with the California Statewide Communities Development Authority (the "Authority"), pursuant to which the City agreed to make certain installment payments in the aggregate principal amount of \$3,500,000 (the "2001 Wastewater Installment Payments") for the purpose of financing certain improvements to the Wastewater System, and in connection therewith the Authority issued its Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2001B (the "2001 Bonds"), pursuant to an Indenture, dated as of August 1, 2001, between the Authority and Union Bank of California, N.A., as trustee; and,

(ii) an Installment Purchase Agreement, dated as of May 18, 2005 (the "2005 Wastewater Installment Purchase Agreement") with the Calistoga Public Facilities Corporation (the "Corporation"), pursuant to which the City agreed to make certain installment payments in the aggregate principal amount of \$2,028,500 (the "2005 Wastewater Installment Payments") for the purpose of financing certain improvements to the Wastewater System, which 2005 Installment Payments are payable on a parity basis to the 2001 Installment Payments, and in connection therewith the Corporation issued its 2005 Certificates of Participation (the "2005 Certificates"), pursuant to a Trust Agreement, dated May 18, 2005, among the Corporation, the City and the City Treasurer of the City of Calistoga, as trustee, and

(iii) a State Revolving Fund Loan Program Loan Contract dated as of October 3, 1999, and amendments thereto, with the State of California, acting by and through the State Water Resources Control Board, pursuant to which the City agreed to make certain loan payments in the aggregate principal amount of \$5,450,364 (the "1999 Wastewater Loan Payments") for the purpose of financing certain improvements to the Wastewater System, and

WHEREAS, for the Water System the City previously entered into:

(i) an Installment Purchase Agreement, dated as of November 1, 2005 (the "2005 Water Installment Purchase Agreement") with the Authority, pursuant to which the City agreed to make certain installment payments in the aggregate principal amount of \$5,290,000 (the "2005 Water Installment Payments") for the purpose of financing and refinancing certain improvements to the Water System, and in connection therewith the Authority issued its Water and Water Revenue Bonds, Series 2005D (the "2005 Bonds"), pursuant to an Indenture, dated as of November 1, 2005, between the Authority and Union Bank of California, N.A. (now known as MUFG Union Bank, N.A.), as trustee; and

(ii) an Installment Purchase Agreement, dated as of March 27, 2008 (the "2008 Water Installment Purchase Agreement") with the Corporation, pursuant to which the City agreed to make certain installment payments in the aggregate principal amount of \$2,511,170 (the "2008 Water Installment Payments") for the purpose of financing certain improvements to the Water System, and in

57 connection therewith the Corporation issued its 2008 Certificates of Participation (the "2008
58 Certificates"), pursuant to a Trust Agreement, dated March 27, 2008, among the Corporation, the City
59 and the City Treasurer of the City of Calistoga, as trustee; and
60

61 (iii) an Installment Purchase Agreement, dated as of July 7, 2011 (the "2011 Water
62 Installment Purchase Agreement") with the Corporation, pursuant to which the City agreed to make
63 certain installment payments in the aggregate principal amount of \$3,750,000 (the "2011 Water
64 Installment Payments") for the purpose of financing certain improvements to the Water System, and in
65 connection therewith the Corporation issued its 2011 Certificates of Participation (the "2011
66 Certificates"), pursuant to a Trust Agreement, dated July 7, 2011, among the Corporation, the City and
67 the City Treasurer of the City of Calistoga, as trustee; and
68

69 **WHEREAS**, the City, after due investigation and deliberation, has determined that it is in the
70 interests of the City at this time to provide for the refunding of (i) the 2001 Wastewater Installment
71 Purchase Agreement and the 2005 Wastewater Installment Purchase Agreement of the Wastewater
72 System, secured on parity with the 1999 Wastewater Loan Payments which will remain outstanding, and
73 (ii) the 2005 Water Installment Purchase Agreement and 2008 Water Installment Purchase Agreement of
74 the Water System, secured on parity with the 2011 Water Installment Payments which will remain
75 outstanding (collectively as to the obligations refunded, the "Prior Obligations").
76

77 **WHEREAS**, the City has requested the Corporation to assist in the refinancing of the Prior
78 Projects by entering into an Installment Sale Agreement with the City under which the Corporation will
79 provide funding for the refinancing the Prior Obligations and to refinance and sell the Prior Projects to the
80 City in consideration of the agreement by the City to pay the purchase price of the Prior Projects in
81 semiannual installments (the "Installment Payments"); and
82

83 **WHEREAS**, for the purpose of obtaining the moneys required to refinance the Prior Projects in
84 accordance with the terms hereof, the Corporation will assign and transfer certain of its rights under this
85 Agreement to MUFJ Union Bank, N.A., as trustee (the "Trustee"), under a Trust Agreement (the "Trust
86 Agreement"), among the Corporation, the City and the Trustee, under which the Trustee will execute and
87 deliver its 2018 Water and Wastewater Revenue Certificates of Participation (the "Certificates"),
88 evidencing direct, undivided fractional interests in the Installment Payments.
89

90 **WHEREAS**, the City has determined to sell the Certificates to Hilltop Securities Inc. (the "Original
91 Purchaser") pursuant to the terms of a Purchase Agreement (the "Purchase Agreement") to be entered
92 into by the City and the Original Purchaser with respect to the Certificates; and
93

94 **WHEREAS**, the City has caused to be prepared a preliminary Official Statement containing
95 material information relating to the City and its wastewater and water enterprises and the Certificates, the
96 preliminary form of which will be distributed by the Original Purchaser, as underwriter of the Certificates,
97 to persons and institutions interested in purchasing the Certificates, the form of which is on file with the
98 City Clerk; and
99

100 **WHEREAS**, the City Council of the City wishes at this time to authorize all proceedings relating to
101 the execution and delivery of the Certificates, and to approve the execution and delivery of all
102 agreements and documents relating thereto.
103

104 **NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF**
105 **CALISTOGA AS FOLLOWS:**
106

107 **Section 1. Approval of Financing Documents.** The City Council hereby approves the
108 issuance and sale of 2018 Water and Wastewater Revenue Certificates of Participation in the aggregate
109 principal amount of not to exceed \$10,000,000 (the "Certificates") for the purpose of refinancing the Prior
110 Projects outstanding obligations of the City related thereto. To that end, the City Council hereby

111 approves each of the following financing documents in substantially the respective forms on file with the
112 City Clerk, together with any changes therein or additions thereto approved by the City Manager or
113 Administrative Services Director (the "Authorized Officers"), whose execution thereof shall be conclusive
114 evidence of such approval:

- 115
116 • Installment Sale Agreement, between the City and the Corporation, under which the
117 Corporation agrees to provide financing for the Prior Projects, and to sell the
118 completed Prior Projects to the City in consideration of the payment by the City of the
119 Installment Payments as the purchase price, to be made from the net revenues of the
120 Water System and the Wastewater System.
- 121
122 • Trust Agreement, between the City, the Corporation and the Trustee, under which the
123 Trustee agrees to execute and deliver the Certificates and to apply the proceeds
124 thereof as directed by the Corporation and the City.
- 125
126 • Escrow Agreement, between the City and the escrow bank named therein, under
127 which the escrow bank agrees to hold certain proceeds of the Certificates and to use
128 such proceeds for the refunding of the Prior Obligations previously issued by the
129 Authority.

130
131 Each Authorized Officer is hereby authorized and directed for and in the name and on behalf of
132 the City to execute the final form of each of the foregoing documents, and the City Clerk is hereby
133 authorized and directed to attest to the final form of each of the foregoing documents. The schedule of
134 Installment Payments attached to the Installment Sale Agreement shall correspond to the payments of
135 principal and interest represented by the Certificates, to be determined upon the sale thereof as set forth
136 in Section 2.

137
138 **Section 2. Sale of Certificates of Participation.** The City Council hereby approves the sale of
139 the Certificates by negotiation with the Original Purchaser under a Purchase Contract between the City
140 and the Underwriter in the form on file with the City Clerk, together with any changes therein or additions
141 thereto approved by the City Manager, whose execution thereof shall be conclusive evidence of such
142 approval. The amount of Underwriter's discount for the Certificates shall be not more than 0.75% of the
143 par amount thereof and the net present value of savings achieved by sale of the Certificates shall be at
144 least 3.00%.

145
146 **Section 3. Official Statement.** The City Council hereby approves and deems nearly final within
147 the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, the Preliminary Official Statement
148 describing the Certificates in the form on file with the City Clerk. Each Authorized Officer is hereby
149 authorized, at the request of the Underwriter, to execute an appropriate certificate affirming the City
150 Council's determination that the Preliminary Official Statement has been deemed nearly final within the
151 meaning of such Rule. Distribution of the Preliminary Official Statement and the Final Official Statement
152 by the Underwriter is hereby approved. The Final Official Statement shall be executed in the name and
153 on behalf of the City by an Authorized Officer.

154
155 **Section 4. Official Actions.** The Mayor, the City Manager, the Administrative Services Director,
156 the City Clerk and all other officers of the City, are authorized and directed in the name and on behalf of
157 the City to make any and all assignments, certificates, requisitions, agreements, notices, consents,
158 instruments of conveyance, warrants and other documents, including but not limited to a continuing
159 disclosure undertaking in substantially the form appended to the Preliminary Official Statement, which
160 they or any of them might deem necessary or appropriate in order to consummate any of the
161 transactions contemplated by the agreements and documents approved under this Resolution.
162 Whenever in this Resolution any officer of the City is directed to execute or countersign any document or
163 take any action, such execution, countersigning or action may be taken on behalf of such officer by any

164 person designated by such officer to act on his or her behalf in the case such officer is absent or
165 unavailable.

166 **Section 5. Documents in Substantially Final Form; Further Authority.** The documents on file
167 with the City Clerk and herein approved are in substantially final form; that is, they are final as to
168 important business terms such as the rate covenant undertaken by the City as to the wastewater and
169 water rates the City will maintain so long as the Certificates are outstanding, and parity bond restrictions,
170 governing limitations on future issues of obligations secured by net revenues of the Wastewater System
171 and Water System, but do not contain the numbers resulting from the sale of the Certificates, which
172 numbers will be inserted once the Certificates are sold, or the provisions for a reserve account for the
173 Certificates, which will be inserted into the Trust Agreement if the Authorized Officers determine, upon
174 consultation with the Urban Futures, Inc., as the City’s Municipal Advisor and the Original Purchaser, that
175 it is in the best interest of the City to utilize a reserve account in connection with the Certificates. This
176 resolution is intended to be a “parameters resolution,” in which the City Council approves the sale,
177 execution and delivery of the Certificates, within the parameters set forth in this Resolution.
178
179

180 The officers of this City are hereby authorized and directed to execute all documents and take
181 such actions as they may deem necessary or advisable in order to carry out and perform the purposes of
182 this Resolution, including one or more escrow agreements, and the execution or taking of such action
183 shall be conclusive evidence of such necessity or advisability.
184

185 **Section 6. Municipal Bond Insurance and Surety Bond.** The Authorized Officers, each acting
186 alone, are hereby authorized and directed to take all actions necessary to obtain a municipal bond
187 insurance policy for the Certificates and/or a reserve account surety bond for the Certificates from a
188 municipal bond insurance company if it is determined, upon consultation with the City’s Municipal Advisor
189 and the Original Purchaser, that such municipal bond insurance policy and/or surety bond will create cost
190 savings.
191

192 **Section 7. Delivery of Certificates.** The Certificates shall be delivered to the purchaser thereof.
193 This City shall execute, and the Trustee shall authenticate and deliver the Certificates upon receipt of the
194 purchase price and shall credit the proceeds as provided in the Trust Agreement.
195

196 **Section 8. Effective Date.** This Resolution shall take effect from and after the date of approval
197 and adoption thereof.
198

199 **PASSED AND ADOPTED by the City Council of the City of Calistoga at a meeting thereof**
200 **held on the _____ day of _____, 2018.**

- 201
- 202 **AYES:**
- 203 **NOES:**
- 204 **ABSTAIN:**
- 205 **ABSENT:**
- 206
- 207
- 208

209 _____
CHRIS CANNING, Mayor

210 **ATTEST:**
211
212 _____
213 **KATHY FLAMSON, City Clerk**
214