

City of Calistoga

Staff Report

TO: Honorable Mayor and City Council
FROM: David W. Spilman, Administrative Services Director/City Treasurer
Dan Takasugi, Public Works Director and City Engineer
DATE: March 18, 2008
SUBJECT: USDA Financing of Water System Improvements

APPROVAL FOR FORWARDING:


James C. McCann, City Manager

1 **ISSUE:** Consider adoption of a Resolution to authorize the financing of a
2 \$2,511,170 USDA Loan for the Water System and Treatment Plant Upgrade.

3
4 **RECOMMENDATION:** To adopt the Resolution

5
6 **BACKGROUND/DISCUSSION:**

7
8 In 2000, the City adopted a Water Facilities Plan for the long term improvements to
9 the City's water system and in response to questions raised by State Agencies on
10 the supply and reliability of the water system. The Water Facilities Plan proposed
11 over a period of time improvements to the water supply, distribution, storage and
12 treatment facilities. Over the years the City has completed a number of the projects
13 that have significantly improved the water system. Below is a summary of the
14 improvements completed to date:

- 15
- 16 • Acquired 925 acre feet of Kern County water entitlement
- 17 • Transmission and Distribution pipeline system improvements
 - 18 ○ Fiege Transmission main
 - 19 ○ Kimball Transmission main
 - 20 ○ Myrtdale/Grant pipeline
 - 21 ○ Polybutylene services Replacement
- 22 • Acquisition of Water Tank site on Mt. Washington
- 23
- 24
- 25

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26 Some of the original recommended improvements have been revised to better
27 address the needs of the water system and be more cost efficient. These changes
28 have been discussed over the years in the two year budget reviews. Below is a
29 summary of the improvements still needed to the water system:

- 30
- 31 • Kimball Water Treatment Plant upgrades
- 32 • Construction of New Water Tank on Mt. Washington
- 33 • Improvements to Fiege Water Tank
- 34 • Improvements to NBA Pump Station
- 35 • Continued Distribution pipeline system improvements
- 36

37 The funding for all of the improvements is from several sources – current users
38 (monthly water rates), new or expanded development (water connection fees), long
39 term financing and grants. In 2002, the water rates and connection fees were
40 increased to provide the basis for funding the water system operations and needed
41 capital improvements. The water rates were set for five year and changes will be
42 recommended this year with an updated rate study and projection of funding needs
43 over the next five to seven years.

44

45 In 2002, the City applied for and received loan and grant funding from the United
46 States Department of Agriculture (USDA) for a Water Systems Facilities study and
47 various improvements to the distribution system, Water Treatment Plant and Kimball
48 Reservoir (see additional discussion of this funding source and the projects below).
49 In 2003, the Fiege transmission main was replaced in conjunction with Petrified
50 Forest Road improvements and funded with connection fees. In 2005, the Water
51 Tank site acquisition was funded with a combination long term financing and
52 connection fees.

53 **USDA Loan and Grant Funding**

54

55

56 In 2001, Public Works began development of the scopes for the above projects and
57 considering applications for loan and grant funding from various State and Federal
58 agencies. A USDA Phase 1 application was submitted for the Water Systems
59 Facilities study, replacement of the Kimball Transmission main and Myrtledale/Grant
60 pipeline, and Water Treatment Plant and Kimball Reservoir improvements. A Phase
61 2 application was to be prepared later for the new Water Tank once the project
62 scope and location was more developed to allow for completion of the application.

63

64 In 2002, USDA awarded the City a \$2,511,170 loan and a \$1,000,000 grant for the
65 Phase 1 projects. The loan was to reimburse the City for the cost to develop the
66 Water Systems Facilities study (completed in 2000) and fund most of the
67 improvements. The City was eligible, at the time, for a \$1 million grant based on the
68 median income level of the City from the 1990 census and other factors (The City
69 does not currently meet the eligibility requirements from the 2000 census, which was
70 certified after the award of the USDA grant). The grant provided funding for the
71 balance of the improvements.

72

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73 The replacement of the Kimball Transmission main and Myrtdale/Grant pipeline
74 was issued as one contract in June 2005 and completed in December 2005. The
75 scope of the Water Treatment Plant and Kimball Reservoir improvements were to
76 follow the completion of the pipelines.

77
78 It was originally planned to use short interim financing during the construction of the
79 projects, which is typical of USDA loan/grant funding. However, with the added cost
80 of an estimated \$150,000, the low interest earnings on City investments and the
81 projected timing, it was determined to save the added costs and use the City internal
82 funds for the Pipeline construction.

83
84 The Pipeline project costs were approximately \$200,000 less than initially budgeted,
85 which would have reduced the USDA grant to the City. After a review of the revised
86 project scope with the City Council, USDA allowed for changes or additions in the
87 Treatment Plant and Reservoir portion of the project to be able to use the remainder
88 of the loan and the full \$1 million in grant funds. The Treatment Plant and Reservoir
89 scope and designs were revised and this portion of the Phase 1 projects are now
90 planned to be awarded in fall 2008 and completed in spring 2009.

91 92 **Completion of the USDA Loan**

93
94 Due to the length of time the USDA Loan/Grant has been active, without any draws,
95 USDA has requested that the City close out the \$2,511,170 loan portion of the
96 award. Also, with the delay in completion of the Phase 1 projects, it is necessary to
97 fund the loan to replenish the use of City funds for the pipeline project.

98
99 In 2003, the City Council adopted Resolution 2003-016 which accepted the USDA
100 Letter of Conditions and authorized the loan/grant offer. After the project was
101 underway in 2005, the City completed the USDA required documents to the point of
102 authorizing the issuance of the financing.

103
104 The USDA loan will be issued as a Certificate of Participation (COP). A COP is a
105 typical California public financing instrument for public facilities or equipment. It is
106 essentially a type of lease purchase that requires a third party for the lease
107 transaction. In 1987, the City created the Calistoga Public Facilities Corporation
108 (CPFC), as a Section 501 (c) (4) non-profit public benefit corporation, to act as part
109 of a COP transaction. The City has issued several COPs over the years and there
110 are three currently outstanding that provided financing for the Police Station, the
111 Wastewater Treatment Plant, refinancing of prior Water financing and acquisition of
112 the future Water Tank site.

113
114 The attached Resolution will authorized the execution of the installment purchase
115 agreement and trust agreement, and authorize any actions necessary in connection
116 with the issuance of the COP. These agreements are typical and provide for the
117 issuance of the COP, the terms and repayment, security for the repayment,
118 requirements for a repayment reserve and other related issues. Due to the nature of
119 USDA loans, a separate trustee is not needed and the trust agreement designates
120 the City Treasurer as the trustee. The CPFC will also need to adopt a similar

121 Resolution to participate in this COP and will meet to consider the Resolution after
122 this City Council meeting.

123
124 The term of the COP is 40 years with an interest rate not to exceed 4.5%. Currently
125 the USDA interest rate is 4.375%, which will lower the total payments by \$81,000
126 from the initial estimate. Attached is a draft of the repayment schedule. The USDA
127 reserve requirement is to annually set aside 10% of the average annual repayment,
128 around \$13,400, until the maximum annual repayment amount is reached, around
129 \$134,000. This reserve is used to make the annual payment, if necessary, and is
130 required to be maintained until all of the COPs are repaid. In addition, after the
131 reserve has been funded, there is a continuing requirement to set aside the 10%
132 amount for operations, maintenance or capital replacement.

133
134 This type of financing, as with others, requires the assistance and use of outside
135 special legal and financial services. Hawkins Delafield and Wood, a legal firm, was
136 retained in 2003 to assist the City in this transaction. And Brandis Tallman, a
137 financial advisor/underwriter firm, was used for coordination and the required debt
138 and certificate schedules. Typically, a separate firm is used as a Trustee for the
139 annual collection of funds and payment of the COP. Since there is only one
140 purchaser of the COP, USDA, the need for a separate trustee and additional cost is
141 not necessary.

142
143 **FISCAL IMPACT:** The additional annual cost of the USDA Loan is estimated at
144 \$134,000. The annual debt payments were included as part of the Water Revenue
145 Program in the adopted rates and connection fee.

146
147 The Phase 1 projects have a revised funding and budget as shown below:

	Budget and Actual to date
Sources	
USDA Loan	2,511,170
USDA Grant	1,000,000
Water Capital Funds	119,541
Total	3,630,711
Uses	
Financing Costs	40,000
Water Facilities Plan	143,237
Planning, Design and Engineering	813,999
Other Engineering	30,420
Construction and Contingency	
Kimball Transmission Main & Myrtdedale/Grant Pipeline	1,642,855
Kimball Reservoir & Water Treatment Plant	960,200
Total	3,630,711

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169

ATTACHMENTS:

170

1. A Resolution approving forms of and authorizing execution of an installment purchase agreement and trust agreement in connection with the execution and delivery of not to exceed \$2,511,170 in 2008 Certificates of participation (USDA Water Loan) and authorizing and directing certain actions with respect thereto
2. Installment Purchase agreement between the City of Calistoga and Calistoga Public Facilities Corporation
3. Trust Agreement between the City of Calistoga, Calistoga Public Facilities Corporation and City Treasurer of Calistoga, as trustee
4. Draft Sources and Uses and Repayment Schedule
5. Resolution 2003-016 authorizing \$2,511,170 USDA Loan and \$1,000,000 Grant

171

RESOLUTION NO.

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CALISTOGA APPROVING FORMS OF AND AUTHORIZING EXECUTION OF AN INSTALLMENT PURCHASE AGREEMENT AND A TRUST AGREEMENT IN CONNECTION WITH THE EXECUTION AND DELIVERY OF NOT TO EXCEED \$2,511,170 IN 2008 CERTIFICATES OF PARTICIPATION (USDA WATER LOAN) AND AUTHORIZING AND DIRECTING CERTAIN ACTIONS WITH RESPECT THERETO

Authorizing Agreement No. ___
Authorizing Agreement No. ___

WHEREAS, the City of Calistoga, California (the "City") proposes to cause certificates of participation to be delivered to the United States Department of Agriculture Rural Development (the "USDA") in the aggregate principal amount of not to exceed \$2,511,170 and at an interest rate of not to exceed 4.5% to provide permanent long-term financing for certain improvements to the City's water system (the "Project"), reimburse the City for certain costs relating to the Project and pay the costs of execution and delivery of the Certificates and incidental and related expenses;

WHEREAS, it is proposed that pursuant to a Trust Agreement (the "Trust Agreement"), by and between the Corporation, the City and the City acting as Trustee, the 2008 Certificates of Participation (USDA Water Loan) (the "Certificates") will be delivered;

WHEREAS, the Certificates will be sold to the USDA pursuant to the USDA pursuant to Resolution 2003-16 adopted by this City Council on February 18, 2003, in which this City Council approved the sale of long-term indebtedness to the USDA under the terms of a letter of conditions, dated August 9, 2002 (the "Commitment Letter");

WHEREAS, the City Council has previously adopted Ordinances 581 and 586 in 2002, which implemented increased water rates to comply with the terms of the Commitment Letter;

WHEREAS, it is in the best interest and in the public benefit that the City authorize and direct execution of the Installment Purchase Agreement, the Trust Agreement and certain other documents necessary or desirable in connection with the Certificates; and

WHEREAS, the documents below specified have been filed with the City and the members of the City Council, with the aid of its staff, have reviewed said documents and desire to approve each document and authorize and direct the execution of such documents and the consummation of such financing;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF CALISTOGA, AS FOLLOWS:

SECTION 1. The below enumerated documents (collectively, the "Transaction Documents"), in substantially the forms submitted to the City Council, are hereby approved, and an Authorized Officer (as defined below) is hereby authorized and directed to execute the

52 Transaction Documents in substantially the forms hereto presented, with such revisions,
53 amendments and completions as shall be approved by such Authorized Officer, such approval
54 to be conclusively evidenced by the execution and delivery by such Authorized Officer; provided
55 that the aggregate principal amount of the Certificates shall not exceed \$2,511,170 and the
56 interest rate shall not exceed 4.5%. An "Authorized Officer" shall include any member of the
57 City Council, the City Manager, the Finance Director or Administrative Services Director or any
58 other officer of the City designated by any of the foregoing officers and the City Clerk is hereby
59 authorized and directed to attest to such official signatures as necessary. The City Clerk is
60 directed to file a copy of the Transaction Documents with the minutes of this meeting.

61
62 (a) the Installment Purchase Agreement, pursuant to which the City will make
63 Installment Payments to the Corporation as required thereunder; and
64

65 (b) the Trust Agreement, pursuant to which the Certificates will be delivered.
66

67 **SECTION 2.** Any Authorized Officer is hereby authorized and directed to
68 execute and deliver the Transaction Documents and any and all other documents, agreements
69 and instruments and to do and cause to be done any and all acts and things necessary or
70 proper to carry out the transactions contemplated by this Resolution. The signature of only one
71 Authorized Officer shall be sufficient to evidence execution by the City of a document approved
72 hereunder.

73
74 **SECTION 3.** This Resolution shall take effect immediately after its final
75 passage.
76

77
78 **PASSED, APPROVED, AND ADOPTED** as a resolution of the City Council of the City of
79 Calistoga at their regular meeting held this **18th day of March, 2008**, by the following vote:
80

81 **AYES:**

82 **NOES:**

83 **ABSTAIN:**

84 **ABSENT:**
85
86
87
88

89 _____
90 **JACK GINGLES, Mayor**

91
92 **ATTEST:**

93
94 _____
95 **RAQUEL CANTILLON, Deputy City Clerk**
96
97

CITY CLERK'S CERTIFICATE

I hereby certify I am the duly elected, qualified and acting Deputy City Clerk of the City of Calistoga, and that the foregoing is a full, true and correct copy of the resolution adopted at a regular meeting of the City of Calistoga City Council this 18th day of March, 2008.
Date: _____, 2008.

Raquel Cantillon, Deputy City Clerk

Hawkins Delafield & Wood LLP
Draft of March 12, 2008

INSTALLMENT PURCHASE AGREEMENT

by and between

CITY OF CALISTOGA

and

CALISTOGA PUBLIC FACILITIES CORPORATION

Dated March 27, 2008

**RELATING TO \$2,511,170
2008 CERTIFICATES OF PARTICIPATION
(USDA WATER LOAN)**

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INSTALLMENT PURCHASE AGREEMENT

Agreement No. ____

This INSTALLMENT PURCHASE AGREEMENT, made and entered into on March 27, 2008, by and between the CITY OF CALISTOGA, a public agency duly organized and existing under and by virtue of the laws of the State of California (the "City"), and CALISTOGA PUBLIC FACILITIES CORPORATION, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.(the "Corporation").

WITNESSETH:

WHEREAS, the City proposes to finance and/or refinance certain facilities (the "Project") within its enterprise system described in Exhibit A hereto (the "System");

WHEREAS, the Corporation has agreed to assist the City in financing and/or refinancing the Project;

WHEREAS, the City and the Corporation is authorized by the laws of the State of California (the "Law") to enter into this Agreement;

WHEREAS, the City and the Corporation have duly authorized the execution of this Agreement;

WHEREAS, under that certain Trust Agreement, dated March 27, 2008 (the "Trust Agreement"), the Corporation will assign its right to receive Installment Payments under this Agreement to the Treasurer of the City of Calistoga, acting as trustee for the benefit of certain certificates of participation (the "Trustee") and the Trustee has agreed to execute and evidencing the proportionate interests of the holders thereof in Installment Payments to be made by the City to the Corporation (the "Certificates");

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of this Installment Purchase Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Installment Purchase Agreement;

NOW, THEREFORE, IN CONSIDERATION OF THESE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

115 ARTICLE I

116
117 DEFINITIONS

118 Section 1.1. Definitions. Unless the context otherwise requires, the terms defined in
119 this Section shall for all purposes hereof and of any amendment hereof or supplement hereto and
120 of any report or other document mentioned herein or therein have the meanings defined herein,
121 the following definitions to be equally applicable to both the singular and plural forms of any of
122 the terms defined herein. Unless the context otherwise requires, all capitalized terms used herein
123 and not defined herein shall have the meanings ascribed thereto in the Trust Agreement.

124 2005 Installment Purchase Agreement

125 The term "2005 Installment Purchase Agreement" means the California Statewide
126 Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing
127 Program), Series 2005D relating to the City, in the original aggregate principal amount of
128 \$5,290,000.

129 Agreement

130 The term "Agreement" means this Agreement, by and between the City and the
131 Corporation, dated as of the date hereof, as originally executed and as it may from time to time
132 be amended or supplemented in accordance herewith.

133 Annual Debt Service

134 The term "Annual Debt Service" means, for any Fiscal Year, the sum of (1) the interest
135 accruing on all Parity Debt during such Fiscal Year, assuming that all Parity Debt is retired as
136 scheduled, plus (2) the principal amount (including principal due as sinking fund installment
137 payments) allocable to all Parity Debt in such Fiscal Year, calculated as if such principal
138 amounts were deemed to accrue daily during such Fiscal Year in equal amounts from, in each
139 case, each payment date for principal or the date of delivery of such Parity Debt (provided that
140 principal shall not be deemed to accrue for greater than a 365-day period prior to any payment
141 date), as the case may be, to the next succeeding payment date for principal, *provided*, that the
142 following adjustments shall be made to the foregoing amounts in the calculation of Annual Debt
143 Service:

144 (A) with respect to any such Parity Debt bearing or comprising interest at other than a
145 fixed interest rate, the rate of interest used to calculate Annual Debt Service shall be (i) with
146 respect to such Parity Debt then outstanding, one hundred ten per cent (110%) of the greater of
147 (1) the daily average interest rate on such Parity Debt during the twelve (12) calendar months
148 next preceding the date of such calculation (or the portion of the then current Fiscal Year that
149 such Parity Debt has borne interest) or (2) the most recent effective interest rate on such Parity
150 Debt prior to the date of such calculation or (ii) with respect to such Parity Debt then proposed to
151 be issued, the then current 20-Bond GO Index rate as published in The Bond Buyer (or if The
152 Bond Buyer or such index is no longer published, such other published similar index);;

153 (B) with respect to any such Parity Debt having twenty-five per cent (25%) or more of
154 the aggregate principal amount thereof due in any one Fiscal Year, Annual Debt Service shall be
155 calculated for the Fiscal Year of determination as if the interest on and principal of such Parity
156 Debt were being paid from the date of incurrence thereof in substantially equal annual amounts
157 over a period of twenty (20) years from the date of such Parity Debt provided, however that the
158 full amount of such Parity Debt shall be included in Annual Debt Service if the date of
159 calculation is within 24 months of the actual maturity of the payment;

160 (C) with respect to any such Parity Debt or portions thereof bearing no interest but
161 which are sold at a discount and which discount accretes with respect to such Parity Debt or
162 portions thereof, such accreted discount shall be treated as due when scheduled to be paid;

163 (D) Annual Debt Service shall not include interest on Parity Debt which is to be paid
164 from amounts constituting capitalized interest;

165 (E) if an interest rate swap agreement is in effect with respect to, and is payable on a
166 parity with, any Parity Debt to which it relates, no amounts payable under such interest rate swap
167 in excess of debt service payable under such Parity Debt agreement shall be included in the
168 calculation of Annual Debt Service unless the sum of (i) the interest payable on such Parity Debt,
169 plus (ii) the amounts payable by the City under such interest rate swap agreement, less (iii) the
170 amounts receivable by the City under such interest rate swap agreement, are greater than the
171 interest payable on such Parity Debt, in which case the amount of such payments to be made
172 that exceed the interest to be paid on such Parity Debt shall be included in such calculation, and
173 for this purpose, the variable amount under any such interest rate swap agreement shall be
174 determined in accordance with the procedure set forth in subparagraph (A) of this definition; and

175 (F) Repayment Obligations proposed to be entered into as Parity Debt shall be
176 deemed to be payable at the scheduled amount due under such Repayment Obligation as
177 calculated under this definition.

178 Corporation

179 The term "Corporation" means Calistoga Public Facilities Corporation, a nonprofit public
180 benefit corporation duly organized and existing under and by virtue of the laws of the State of
181 California.

182 Certificates

183 The term "Certificates" means the certificates of participation executed and delivered
184 pursuant to the Trust Agreement and then Outstanding.

185 Business Day

186 The term "Business Day" means any day other than a Saturday, a Sunday or a day on
187 which banks located in the city where the Corporate Trust Office is located, are required or
188 authorized to remain closed.

189 Certificate of the City

190 The term "Certificate of the City" means an instrument in writing signed by the City
191 Manager, Finance Director or Administrative Services Director of the City or any other officer of
192 the City duly authorized by the City for that purpose, such authorization to be evidenced by a
193 certificate verifying the specimen signatures of such officers at the request of the Trustee.

194 City

195 The term "City" means the City of Calistoga, a public agency duly organized and existing
196 under and by virtue of the Constitution and laws of the State of California.

197 Code

198 The term "Code" means the Internal Revenue Code of 1986, as amended, and the
199 regulations of the United States Department of the Treasury issued thereunder, and in this regard
200 reference to any particular section of the Code shall include reference to all successors to such
201 section of the Code.

202 Event of Default

203 The term "Event of Default" means an event described in Section 8.1 hereof.

204 Fiscal Year

205 The term "Fiscal Year" means the period beginning on July 1 of each year and ending on
206 the last day of June of the next succeeding year, or any other twelve-month period selected and
207 designated as the official Fiscal Year of the City.

208 Generally Accepted Accounting Principles

209 The term "Generally Accepted Accounting Principles" means the uniform accounting and
210 reporting procedures set forth in publications of the American Institute of Certified Public
211 Accountants or its successor, or by any other generally accepted authority on such procedures,
212 and includes, as applicable, the standards set forth by the Governmental Accounting Standards
213 Board or its successor.

214 Independent Certified Public Accountant

215 The term "Independent Certified Public Accountant" means any firm of certified public
216 accountants appointed by the City, which is independent of the City and the Corporation
217 pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified
218 Public Accountants.

219 Installment Payment Date

220 The term "Installment Payment Date" means the fifteenth day of the month prior to each
221 related Interest Payment Date, or if said date is not a Business Day, then the preceding Business
222 Day.

223 Installment Payments

224 The term "Installment Payments" means the Installment Payments of interest and
225 principal scheduled to be paid by the City under and pursuant hereto as provided in Exhibit B
226 hereto.

227 Interest Payment Date

228 The term "Interest Payment Date" means the payment dates of the Certificates identified
229 in the Trust Agreement.

230 Law

231 The term "Law" means the laws of the State of California pursuant to which the City was
232 formed and operates.

233 Maximum Annual Debt Service

234 The term "Maximum Annual Debt Service" means, as of any date of calculation, the
235 largest Annual Debt Service during the period from the date of such calculation through the final
236 maturity date of all Parity Debt.

237 Net Proceeds

238 The term "Net Proceeds" means, when used with respect to any casualty insurance or
239 condemnation award, the proceeds from such insurance or condemnation award remaining after
240 payment of all expenses (including attorneys' fees) incurred in the collection of such proceeds.

241 Operation and Maintenance Costs

242 The term "Operation and Maintenance Costs" means the reasonable and necessary costs
243 paid or incurred by the City for maintaining and operating the System, determined in accordance
244 with Generally Accepted Accounting Principles, including all reasonable expenses of
245 management and repair and all other expenses necessary to maintain and preserve the System in
246 good repair and working order, and including all administrative costs of the City that are charged
247 directly or apportioned to the operation of the System, such as salaries and wages of employees,
248 overhead, taxes (if any) and insurance premiums (including payments required to be paid into
249 any self-insurance funds), and including all other reasonable and necessary costs of the City or
250 charges required to be paid by it to comply with the terms hereof or of any Supplemental
251 Agreement or of any resolution authorizing the execution of any Parity Debt, such as
252 compensation, reimbursement and indemnification of the Trustee and the Corporation and fees
253 and expenses of Independent Certified Public Accountants; but excluding in all cases (i) payment

254 of Parity Debt and Subordinate Obligations, (ii) costs of capital additions, replacements,
255 betterments, extensions or improvements which under Generally Accepted Accounting
256 Principles are chargeable to a capital account, and (iii) depreciation, replacement and
257 obsolescence charges or reserves therefor and amortization of intangibles.

258 Parity Debt

259 The term "Parity Debt" means the Installment Payments and any Parity Obligations.

260 Parity Obligation Payments

261 The term "Parity Obligation Payments" means the payments scheduled to be paid by the
262 City under and pursuant to the Parity Obligations, which payments are secured by a pledge of
263 System Net Revenues on a parity with the Installment Payments as provided herein.

264 Parity Obligations

265 The term "Parity Obligations" means all obligations of the City authorized and executed
266 by the City other than the Installment Payments, the Parity Obligation Payments under which are
267 secured by a pledge of the System Net Revenues on a parity with the Installment Payments as
268 provided herein, including but not limited to any Repayment Obligations secured by System Net
269 Revenues on a parity with the Installment Payments. As of the date hereof, the 2005 Installment
270 Purchase Agreement constitute Parity Obligations.

271 Project

272 The term "Project" means any additions, betterments, extensions and improvements to
273 the System financed or refinanced described in Exhibit A hereto.

274 Purchase Price

275 The term "Purchase Price" means the principal amount plus interest thereon owed by the
276 City to the Corporation under the terms hereof as provided in Section 4.1.

277 Rate Stabilization Fund

278 The term "Rate Stabilization Fund" means the fund by that name established pursuant to
279 Section 5.4 hereof.

280 Repayment Obligation

281 "Repayment Obligation" means the reimbursement obligation or any other payment
282 obligation of the City under a written agreement between the City and a credit provider to
283 reimburse the credit provider for amounts paid pursuant to a credit facility for the payment of the
284 principal amount or purchase price of and/or interest on any Parity Debt.

285 Reserve Fund

286 The term "Reserve Fund" means the Reserve Fund established pursuant to the Trust
287 Agreement.

288 Reserve Fund Requirement

289 The term "Reserve Fund Requirement" means the amount equal to \$13,404,
290 which amount shall be established from annual deposits to the Reserve Fund in the amount equal
291 to one tenth (1/10th) of the average annual Installment Payments relating to the Certificates (the
292 "Special Payment" as defined below) for ten (10) years or until the maximum amount under the
293 Code is reached, whichever is earlier.

294 Special Payment

295 The term "Special Payment" means the amount equal to one tenth (1/10th) of the average
296 annual Installment Payments relating to the Certificates which shall be applied to the Reserve
297 Fund as set forth in Section 5.03(c) of the Trust Agreement.

298 Subordinate Obligations

299 The term "Subordinate Obligations" means the obligations of the City that are
300 subordinate in payment to the Installment Payments.

301 Supplemental Agreement

302 The term "Supplemental Agreement" means any agreement then in full force and effect
303 which has been entered into by the City and the Trustee, amendatory of or supplemental hereto;
304 but only if and to the extent that such Supplemental Agreement is specifically authorized
305 hereunder.

306 System

307 The term "System" means the whole and each and every part of the system identified in
308 Exhibit A hereto of the City, including the portion thereof existing on the date hereof, and
309 including all additions, betterments, extensions and improvements to such system or any part
310 thereof hereafter acquired or constructed.

311 System Net Revenues

312 The term "System Net Revenues" means for any period System Revenues less Operation
313 and Maintenance Costs for such period; provided that certain adjustments in the amount of
314 System Net Revenue deemed collected during a Fiscal Year may be made in connection with
315 amounts deposited in the Rate Stabilization Fund as provided in Section 5.4 herein.