CERTIFICATION AND FINANCING PROPOSAL

REFINANCING OF EXISTING DEBT
FOR THE CITY OF PRESIDIO, TEXAS
UNDER THE NADB COVID-19 RECOVERY PROGRAM

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CONTENTS

EXECUTIVE SUMMARY

REFINANCING OF EXISTING DEBT FOR THE CITY OF PRESIDIO, TEXAS UNDER THE NADB COVID-19 RECOVERY PROGRAM

Project: The proposed project consists of refinancing of existing debt of the City of Presidio, Texas ("the Project"). The refinancing will be implemented under the NADB COVID-19 Recovery Program. During its virtual meeting in May 2020, the NADB Board of Directors Approved the COVID-19 Recovery Program, which is intended to support border communities experiencing economic, health and social impacts caused by the COVID-19 pandemic, while at the same time promoting continued environmental improvement in the U.S.-Mexico border region. NADB refinancing supports private and public entities, including municipalities and utilities that need to refinance existing debt obligations related to eligible projects. NADB financing can alleviate the liquidity position of these public sponsors and help them continue to provide public services for the benefit of the people in the border region.

Additionally, NADB is in the final development phase with the Sponsor for a $4.5 million drinking water system project that will increase system sustainability by reducing pressure in the lines, protect water quality by eliminating line breaks that cause substantial water losses and can lead to contamination of the water supply and extend the system to an unserved area. Through Board Resolution BR 2019-13, the project was certified, and an US$800,000 loan was approved for its implementation. A US$3.0-million grant was also approved through the Border Environment Infrastructure Fund (BEIF) and contracted in March 2020. The bids received for construction of the project exceeded the estimated cost and on July 17, 2020 NADB requested a loan increase of US$700,000 to complete the financing necessary to carry out the certified project. Construction is expected to begin in August 2020, using the BEIF funds. Approval of the increased loan amount is crucial to ensure that the project will be completed as certified.

Project Objective: The purpose of the Project is to refinance US$1.32 million in existing debt for the City of Presidio in order to provide more efficient debt service cash flows for the maintenance and operation of existing infrastructure and help the City continue to provide public services for the benefit of its residents. Such services include water, sewer, wastewater treatment, storm drainage, solid waste collection and disposal, emergency response, street paving, public lighting, public library, among others.

Expected Outcomes: Refinancing existing debt, which has a weighted average interest rate of 3.11%, will alleviate the liquidity position of the City of Presidio. The refinancing is expected to reduce current debt service by roughly US$250k from around $330k during the first two years of the loan.

These savings will be directly transferred to Presidio residents as the refinancing will also give the City more financial flexibility, lessening the need to raise fees or rates in order to continue providing public services in the community. This aspect has become increasingly relevant in communities that have severely been impacted by the slowdown in their economic activity due to the effects of the COVID-19 pandemic.

Population to Benefit: 4,500 residents of the City of Presidio, Texas.

Project Sponsor: City of Presidio, Texas. The Sponsor is a public entity that provides public services to the local community and whose mandate is aligned with the Bank´s mission.

Project Borrower: City of Presidio, Texas.

NADB Loan: Up to US$1,320,000, through the COVID-19 Recovery Program.

CERTIFICATION AND FINANCING PROPOSAL

REFINANCING OF EXISTING DEBT FOR THE CITY OF PRESIDIO, TEXAS UNDER THE NADB COVID-19 RECOVERY PROGRAM

1. PROJECT OBJECTIVE AND EXPECTED OUTCOMES

The proposed project consists of refinancing of existing debt of the City of Presidio, Texas (the "Project"). The refinancing will be implemented under the NADB COVID-19 Recovery Program. During its virtual meeting in May 2020, the NADB Board of Directors approved the COVID-19 Recovery Program, which is intended to support border communities experiencing the economic, health and social impacts caused by the COVID-19 pandemic, while at the same time promoting continued environmental improvement in the U.S.-Mexico border region. NADB refinancing supports private and public entities, including municipalities and utilities that need to refinance existing debt obligations related to eligible projects. NADB financing can alleviate the liquidity position of these public sponsors and help them continue to provide public services for the benefit of the people in the border region.

The refinancing will support the City of Presidio's liquidity constraints and will provide more efficient debt service cash flows for the operation and maintenance of existing infrastructure. NADB financing will alleviate the liquidity position of the City of Presidio while helping to continue to provide public services for the benefit of this community. In addition, NADB funding will give financial flexibility and lessen pressures that may impact fees or rates of public infrastructure services in the community.

Additionally, NADB is in the final development phase with the Sponsor for a $4.5 million drinking water system project that will increase system sustainability by reducing pressure in the lines, protect water quality by eliminating line breaks that cause substantial water losses and can lead to contamination of the water supply and extend the system to an unserved area. Through Board Resolution BR 2019-13, the project was certified, and an US$800,000 loan was approved for its implementation. A US$3.0-million grant was also approved through the Border Environment Infrastructure Fund (BEIF) and contracted in March 2020. The bids received for construction of the project exceeded the estimated cost and on July 17, 2020 NADB requested a loan increase of US$700,000 to complete the financing necessary to carry out the certified project. Construction is expected to begin in August 2020, using the BEIF funds. Approval of the increased loan amount is crucial to ensure that the project will be completed as certified.

2. ELIGIBILITY

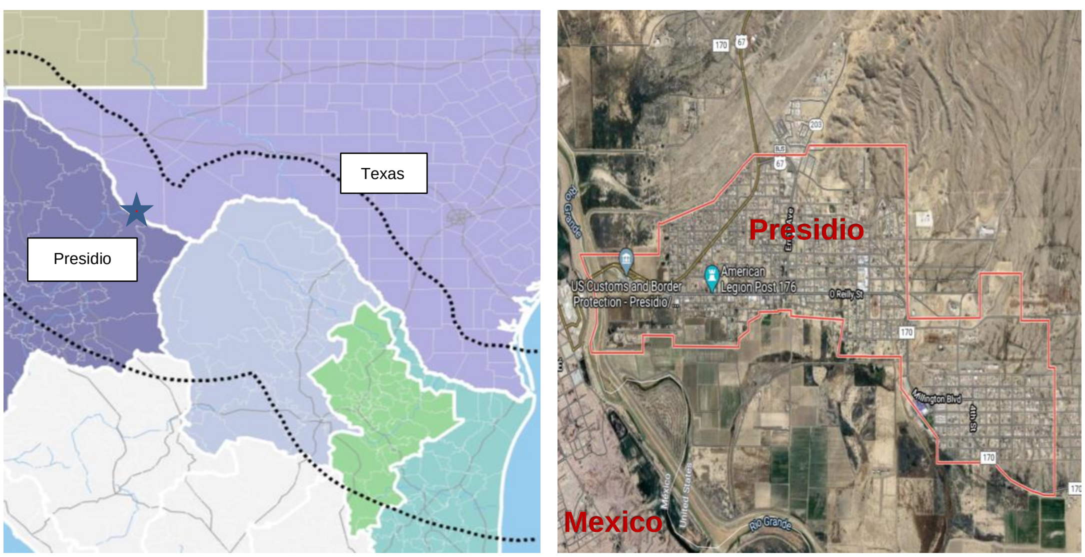
2.1. Project Type

The Project falls within the NADB COVID-19 Recovery Program. The Sponsor is a public entity whose mandate is aligned with the NADB mission, as it provides public services to the local community. Among the services provided are drinking water, sewer, wastewater treatment, storm drainage, solid waste collection and disposal; emergency response; street paving; public lighting; public library and recreational. The Project will help the City in continue to operate and maintain infrastructure that fall within the eligible categories of the NADB mandate.

2.2. Project Location

The Project will be implemented in Presidio, Texas, which is located adjacent to the U.S.-Mexico border, directly across from Ojinaga, Chihuahua. The geographical coordinates of the town center are approximately 29° 33’ 40” N and 104° 22’ 50” W. Figure 1 shows the location of the community.

Figure 1
PROJECT LOCATION MAP



2.3. Project Sponsor and Legal Authority

The public-sector Project sponsor is the City of Presidio, Texas (the “Sponsor” or the “City), which is responsible for providing public services within the city limits.

3. CERTIFICATION CRITERIA

3.1. Technical Criteria

3.1.1. General Community Profile

The City of Presidio is in a region of Texas commonly referred to as "Big Bend". Presidio is one of the larger towns in this area and has a major regional border crossing. The closest major U.S. cities are El Paso and Midland-Odessa, both urban areas are approximately 200 miles away.

According to the 2010 U.S. Census, the population of the City of Presidio was nearly 4,500. The City had a median household income (MHI) of US$ 26,737 in 2017, and 25.3% of its population lived below poverty level. In comparison, the median household income of the state of Texas was US$ 59,206, and approximately 14.7% of the state population lived below poverty level.[1]

The following table summarizes the status of public services and infrastructure in Presidio.

Table 1
BASIC PUBLIC SERVICES AND INFRASTRUCTURE*

Water	
Coverage:	98%**
Water supply source:	West Texas Bolson Aquifer
Number of hookups:	1,783 residential
Wastewater Collection	
Coverage:	90%***
Number of connections:	1,627 residential
Wastewater Treatment	
Coverage:	100%
Treatment facilities:	Lagoon system with capacity to treat 1.25 million gallons a day
Solid Waste	
Collection:	100%
Final disposal:	Landfill
Street Paving	
Coverage:	Approx. 85%

* Information provided by Presidio on November 1, 2018.
** The area along HWY 67 is the only populated area within Presidio without water service.
*** Remaining 10% currently use permitted and functioning septic tanks.

[1] Source: City of Presidio website, http://www.city-data.com/city/Presidio-Texas.html, accessed on July 21, 2020.

<u>COVID 19 current situation</u>

<u>United States</u>

Since the outbreak in March 2020, the virus has been exponentially spreading to all nations and all U.S. states. According to the Center for Diseases Control and Prevention (CDC) as of July 24, 2020, the United States has registered 4,080,745 COVID-19 infections with a total death toll of 144,296. Texas is the 4th state with the highest number of cases just below New York, California, and Florida. Total infections account for 375,377 with 4,717 deaths for the same period.[2]

COVID-19 pandemic has affected global economic growth beyond anything experienced in nearly a century, changing economic and social landscape. Estimates indicate the virus could trim global economic growth by 3.0% to 6.0% in 2020, with a partial recovery in 2021, assuming there is not a second wave of infections. The economic fallout from the pandemic raises the risks of a global economic recession with levels of unemployment not experienced since the Great Depression in 1929. Social costs in terms of lives lost will permanently affect global economic growth in addition to the cost of rising levels of poverty, lives upended, careers derailed, and increased social unrest. Global trade could also fall by 13% to 32%, depending on the depth and extent of the global economic downturn.[3] Although its full impact will not be known until the effects of the pandemic peak, the extended presence of the outbreak is putting severe pressure on the finances and economic output of public entities in the short term, while at the same time governments at all levels need to respond to the public health emergency.

In the U.S., as reported by the Bureau of Economic Analysis on April 29, 2020, first quarter U.S. GDP data indicated that the U.S. economy had contracted by 4.8% at an annual rate. A decline in economic activity of 30% or more was recorded in motor vehicles and parts, recreation, food services and accommodation and transportation sectors, reflecting the quarantine measures adopted across the country. In contrast to the other sectors of the economy, food and beverage consumption increased by 25% as a result of the switch by individuals from eating at restaurants and other commercial food service establishments to preparing and eating food at home.[4]

In May 2020, the Department of Labor reported that the U.S. non-farm unemployment rate in the previous month increased by 20 million, raising the total number of unemployed Americans to 23 million, or an unemployment rate of 14% of a total civilian labor force of 156 million. The unemployment rate does not include approximately 10 million workers who are involuntarily working part-time and another 9 million individuals seeking employment. The number of unemployed individuals increased the most in the leisure and hospitality sector, reflecting

[2] Source: USA Facts organization (https://usafacts.org/visualizations/coronavirus-covid-19-spread-map/)
[3] Source: Global Economic Effects of COVID-19 report elaborated by Congressional, Research Service and updated July,2020, (https://fas.org/sgp/crs/row/R46270.pdf)
[4] Source: Global Economic Effects of COVID-19 report elaborated by Congressional, Research Service and updated July,2020, (https://fas.org/sgp/crs/row/R46270.pdf)

national quarantining policies to reduce the spread of COVID-19 through social contact, being. widely spread across the economy, affecting all labor groups.[5]

The impacts associated with COVID-19 described above, will make it significantly more difficult for many private borrowers (corporations and households) and public borrowers (governments) to repay their debts, making them vulnerable to shocks that disrupt revenue and inflows of new financing without government intervention. COVID-19 has hit the revenue of corporations in a range of industries: factories are ceasing production, brick-and-mortar retail stores and restaurants are closing, commodity prices have plunged (Bloomberg commodity price index—a basket of oil, metals, and food prices—has dropped 27% since the start of the year and is now at its lowest level since 1986). U.S. households are facing a rapid increase in unemployment and with fewer resources may default on the payment of their taxes and debts. These defaults will result in a decline in bank assets, making it difficult for banks to extend new loans during the crisis or, more severely, creating solvency problems for banks. Meanwhile, many governments are dramatically increasing spending to combat the pandemic, and are likely to face sharp reductions in revenue, putting pressure on public finances deteriorating their financial situation.[6]

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by U.S. Congress and signed into law on March 27, 2020, delivering an over $2 trillion economic relief package aimed at protecting the public health and mitigating the economic impacts of COVID-19 to different sectors of the American people. The CARES Act provides fast and direct economic assistance for American workers, families, and small businesses, and preserve jobs for our American industries.[7]

Through the Coronavirus Relief Fund created under the CARES Act, $5.06 billion in funding is available to local governments in Texas to aid in reimbursement of direct expenses incurred due to the COVID-19 pandemic. The U.S. Department of Treasury has directly sent over $3.2 billion to the cities and counties in Texas with a population greater than 500,000. The remaining $1.85 billion will be available to other cities and counties throughout the state. The counties, and the cities within those counties, that cannot access these direct allocations from the Treasury are eligible to apply for a $55 per capita allocation from the $1.85 billion.[8]

The CARES Act requires that the payments from the Coronavirus Relief Fund only be used to cover expenses that i) are necessary expenditures incurred due to the public health emergency with respect to the COVID–19, ii) were not accounted for in the budget most recently approved as of the date of enactment of the CARES Act for the State or government; and iii) were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020.

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[5] Source: Global Economic Effects of COVID-19 report elaborated by Congressional, Research Service and updated July,2020, (https://fas.org/sgp/crs/row/R46270.pdf)
[6] Source: Global Economic Effects of COVID-19 report elaborated by Congressional, Research Service and updated July,2020.
[7] Source: U.S. Department of Treasury (https://home.treasury.gov/policy-issues/cares).
[8] Source: Office of Texas Governor, Texas, Economic Development (https://gov.texas.gov/business/page/coronavirus#:~:text=Under%20the%20CARES%20Act%2C%20%245.06,a%20population%20greater%20than%20500%2C000.).

According to the National Association of Counties (NACo)[9], nationally, counties anticipate $202 billion impact to budgets through FY2021, alongside with $30 billion of additional expenditures and $114 billion of lost county-generated revenue. Furthermore, it is also expected an additional $58 billion cut in state funding for counties as states collectively anticipate a $555 billion budget shortfall. This decrease in local government spending may lead to a $344 billion decrease in economic output and 4.9 million less jobs.

Major county revenue streams that support critical local services are at risk, yet most counties have limited authority to raise additional funds to make up this deficit. Moreover, Counties are also seeing an unprecedented rise in expenditures related to the COVID-19 pandemic, investing billions of dollars to save lives and keep American communities safe and healthy. Charges and fees, sales tax and gross receipts, income taxes and licenses fees which comprise on average 42% all county-generated revenue, are most at risk because of the COVID-19 pandemic. At the same time, County expenditures are increasing dramatically as additional funding is being put into health and hospital systems, justice and public safety services, human services, technology infrastructure and education.[10]

On average, counties generate 71% of revenue through local taxes, administrative charges, and utility revenue. The effects of COVID-19 crisis are causing delays and reductions in property tax collection – the primary source of revenue for counties in most states and – a fairly stable source of revenue. Many counties are extending the deadline for residents to pay property taxes or waiving late fees, thereby delaying their primary annual income flows, and causing anxiety as expenditures rise. However, property tax revenue may not experience as large of a decrease as other revenue sources, but counties will still need to rely on financial reserves until revenue can be collected. Furthermore, specific county functions that are supported by user fees, state revenue sharing and other tax sources remain susceptible to budget cuts. As a result, it is estimated that 71% of counties have cut or delayed capital investments, 68% indicate a cut or delay to its services, public safety and community development support while 25% have reduced their workforce through furloughs, layoffs and requests for early retirement.

City of Presidio

Presidio is an economically distressed community. Economic activities in Presidio and the surrounding area include agriculture, construction, retail sales and some manufacturing. Much of its economy is derived from cross-border activities with Ojinaga, such as completing final product requirements for modular homes initially produced in Mexico and processing green chili grown in Mexico.

The City of Presidio has been affected in various ways by the COVID-19 pandemic. Its mayor source of income is revenue from the international port of entry. In a regular month, such port of entry

[9] Source: National association of Counties (https://www.naco.org/covid19).
[10] https://www.naco.org/sites/default/files/documents/NACo_COVID-19_Fiscal_Impact_Analysis_1.pdf

would see an activity of 400,000 vehicles crossings. With the shutdown of the international bridge, crossings have been reduced in 70%.

Presidio has also seen its sales tax declined by up to 22% and has also experienced a delay in payment of residents' utility bills. The City is expecting to end the fiscal year with a budget short fall of up to 15%.

Also, unemployment in the community has increased because of the pandemic. Prior to the closure of the economy, the unemployment rate was estimated at around 10%. Now the City is experiencing an unemployment rate of 23%, which is one of the highest in the state of Texas.

To address the decline in revenues, Presidio is implementing several measures including the following.

- Refinancing of its current debt to improve its liquidity and provide a more efficient debt service cash flow.
- Stop providing nonessential services such as access to the public library and to the activity center.
- Lay off workers and not hiring positions when workers retired.
- Cancelation of capital projects. Such as, expanding the landfill's operational building and acquisition of equipment; and updating wastewater lift stations.

Regarding the pandemic itself, Presidio residents that need medical attention must be transported to the nearest hospital which is 90 miles away in the city of Alpine. The cost of those medical transports is cover by the City itself since most of Presidio's residents cannot afford such payments. These, due the fact that the County of Presidio does not have a hospital on its own.

3.1.2. Project Scope

The Project consists of refinancing of existing debt of the City of Presidio, Texas. The refinancing will be implemented under the NADB COVID-19 Recovery Program.

3.1.3. Technical Feasibility

Given the nature of the Project related to refinancing existing debt, a technical feasibility analysis is not applicable.

3.1.4. Land Acquisition and Right-of-Way Requirements

Given the nature of the Project related to refinancing existing debt, land acquisition and right-of-way requirements are not applicable.

3.1.5. Project Milestones

Closing of the refinancing is expected to take place in November of 2020.

3.1.6. Management and Operation

Given the nature of the Project related to refinancing existing debt, management and operation are not applicable.

3.2. Environmental Criteria

3.2.1. Environmental and Health Effects/Impacts

A. <u>Existing Conditions</u>

Given the nature of the Project related to refinancing existing debt, existing environmental conditions are not applicable.

B. <u>Project Impacts</u>

The Project is expected to help the City of Presidio improve its liquidity by providing a more efficient debt service cash flow. The latter will assist Presidio in the operation and maintenance of existing infrastructure for the benefit of the residents of this community. Such infrastructure includes water, sewer, storm drainage, wastewater treatment, solid waste landfill and a public library, among others.

In addition, NADB funding will give financial flexibility to the City of Presidio and will lessen pressures that may impact fees or rates of public infrastructure services in the city. This aspect has become increasingly relevant in communities that have severely been impacted by the slowdown in their economic activity due to the effects of the COVID-19 pandemic.

C. <u>Transboundary Impacts</u>

Given the nature of the Project related to refinancing existing debt, no transboundary impacts are anticipated as a result of the Project.

3.2.2. Compliance with Applicable Environmental Laws and Regulations

Given the nature of the Project related to refinancing existing debt, compliance with applicable environmental laws and regulations is not applicable.

A. <u>Environmental Clearance</u>

Given the nature of the Project related to refinancing existing debt, an environmental clearance is not applicable.

B. Mitigation Measures

Given the nature of the Project related to refinancing existing debt, environmental mitigation measures are not applicable.

C. Pending Environmental Tasks and Authorizations

Given the nature of the Project related to refinancing existing debt, there are no environmental authorizations pending for the Project.

3.3. Financial Criteria

The total estimated cost of the Project is US$1,320,000. The Sponsor has requested a NADB loan to refinance the Project cost. Based on a thorough analysis of both the Project and the Sponsor, NADB has determined that the Project meets all COVID-19 Recovery Program criteria and is recommending to provide the Sponsor with a loan for up to $1,320,000. Table 2 shows a breakdown of the uses and sources of funding.

Table 2
USES AND SOURCES OF FUNDS
(US $)

Uses	Amount	%
Refinancing	$ 1,320,000	100.0
TOTAL	**$ 1,320,000**	**100.0**
Sources	**Amount**	**%**
NADB loan	$ 1,320,000	100.0
TOTAL	**$ 1,320,0000**	**100.0**

The loan is expected to be financed through certificates of obligations to be issued by the City of Presidio. The source of payment for the loan will be an ad valorem tax on all taxable property within the City of Presidio, at a rate sufficient, within the limit prescribed by law, to cover debt service payments. The refinancing will extend the final maturity to 20 years to help lower annual debt service obligations currently at around $330k. The refinancing is expected to decrease annual debt service by $250k in years 1 – 2, $40k in years 3 – 4, and $20k in years 5 - 7. As a result, the debt service savings from the refinancing will be directly transferred to the city residents as it will increase the City's financial capacity to further invest in capital improvement projects without placing any additional property tax burden on the city residents.

The levied ad valorem tax will be assessed and collected each year against all property appearing on the recently approved city tax rolls, and the revenue collected will be irrevocably pledged and deposited to an interest and sinking fund for the payment of the NADB loan.

NADB's preliminary analysis verified that the Project Sponsor has the legal authority to contract the financing and levy an ad valorem tax on taxable property for the payment of financial obligations. Furthermore, the proposed Project is located within the U.S.-Mexico border region served by NADB, is being sponsored by a public entity and is eligible for NADB financing through its COVID-19 Recovery Program.

Considering the Project's characteristics and based on the financial and risk analysis performed, the proposed Project is considered to be financially feasible and presents an acceptable level of risk.

4. PUBLIC ACCESS TO INFORMATION

4.1. Public Consultation

NADB published the draft certification and financing proposal for a 30-day public comment period beginning August 5, 2020.

4.2. Outreach Activities

On September of 2019, the City discussed at a Council Meeting the need to refinance its existing debt. Public attending such meeting were informed of the refinancing plan. In addition, as part of the corresponding certificates of obligation approval process, the Sponsor will hold an additional City Council Meeting in which the approval of the refinancing will be discussed. This meeting is expected to take place in September of 2020.

NADB also conducted a media search to identify potential public opinion about the Project. No specific articles or references to the Project were found. No public opposition to the Project has been detected.