



PROJECT PROPOSAL

REFINANCING OF EXISTING DEBT FOR THE CITY OF EDCOUCH IN TEXAS UNDER THE REFINANCING UMBRELLA OF THE NADB COVID-19 RECOVERY PROGRAM

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INTRODUCTORY NOTE

In response to the crisis caused by the COVID-19 pandemic, the NADB Board of Directors approved a temporary, two-year financing program in May 2020 to support projects that have both environmental benefits and direct positive impacts on the economy and well-being of residents in the U.S.-Mexico border region. Under the program, the Board may consider approval of loan proposals for refinancing existing debt on environmental infrastructure (public and private projects) or for public entities, such as water utilities, whose mandate is aligned with the NADB mission, as well as projects that have a recognizable environmental benefit but are focused on delivering significant social, health or economic benefits to border communities.

In November 2020, the Board certified and approved funding for an umbrella program under ProRec to expedite the refinancing of existing debt for public entities affected by COVID-19. The Umbrella Program for Refinancing Existing Debt of Public Entities establishes the guidelines and expedited procedures for the certification and financing of these types of operations, which in general have similar characteristics. Individual projects under the umbrella program shall be approved in accordance with the following procedures:

- A. Approval of project proposal by the NADB Technical and Environmental Committee and Funding Committee.
- B. Publication of the proposal for a 30-day public comment period, with no unresolved comments.
- C. Ratification of compliance with the eligibility criteria by the Managing Director and Chief Environmental Officer.
- D. Notification sent to the Board of Directors within 15 days of financial closing.

EXECUTIVE SUMMARY

REFINANCING OF EXISTING DEBT FOR THE CITY OF EDCOUCH, TEXAS

UNDER THE REFINANCING UMBRELLA OF THE NADB COVID-19 RECOVERY PROGRAM

Project: The proposed project consists of refinancing of up to US\$1.4 million in existing debt of the City of Edcouch (the “City”) in Hidalgo County, Texas (the “Project”). This proposal meets the eligibility requirements of the NADB ProRec Umbrella Refinancing Program.

Project Objective: The purpose of the Project is to refinance up to US\$1.4 million in existing debt to reduce debt service requirements for the City and thus increase available cash flows for the maintenance and operation of existing infrastructure, lessen the need to raise taxes or fees, and allow the City to continue providing public services for the benefit of its residents. These services include water, wastewater and solid waste.

Expected Outcomes: The estimated outcomes resulting from refinancing up to US\$1.4 million in existing debt for the City are:

- i) Reduced debt service obligations during the first year of US\$104,590. For comparison purposes, this amount equals approximately 64% of the total cost of water and sewer supplies in the FY2021 budget.
- ii) During the first 10 years, the cumulative present value of reduced debt service obligation is approximately US\$820,000.

These savings will:

- i) Improve liquidity to facilitate the ongoing provision of critical water, wastewater and solid waste services; and
- ii) Lessen the likelihood of possible rate increases for water, wastewater and solid waste services and/or property taxes.

Population to Benefit: 3,313 residents in the City of Edcouch.¹

Project Sponsor: City of Edcouch (the “City”).

Borrower: The City.

Project Cost: Up to US\$1.4 million.

¹ Source: U.S. Census Bureau, 2019. (<https://www.census.gov/search-results.html?searchType=web&cssp=SERP&q=Edcouch%20city,%20TX>).

NADB Loan: Up to US\$1.4 million, through the Umbrella Program for Refinancing Existing Debt of Public Entities under the NADB COVID-19 Recovery Program.

Uses and Sources of Funds:
 (US\$ million)

Uses	Amount	%
Refinancing of existing debt	\$ 1.4	100.0
TOTAL	\$ 1.4	100.0
Sources	Amount	%
NADB loan	\$ 1.4	100.0
TOTAL	\$ 1.4	100.0

PROJECT PROPOSAL

REFINANCING OF EXISTING DEBT FOR THE CITY OF EDCOUCH IN TEXAS

UNDER THE REFINANCING UMBRELLA OF THE NADB COVID-19 RECOVERY PROGRAM

1. PROJECT OBJECTIVE AND EXPECTED OUTCOMES

The proposed project consists of refinancing of up to US\$1.4 million in existing debt of the City of Edcouch (the “City”) in Hidalgo County, Texas (the “Project”). This proposal meets the eligibility requirements of the NADB ProRec Umbrella Refinancing Program (the “ProRec Umbrella Program”).

The purpose of the Project is to reduce debt service requirements and thus increase available cash flows for the maintenance and operation of existing infrastructure, lessen the need to raise taxes or fees and allow the City to continue providing public services for the benefit of its residents. These services include water, wastewater and solid waste. The estimated outcomes resulting from the refinancing up to US\$1.4 million in existing debt are total savings of US\$104,590 during the first year. For comparison purposes, this amount equals approximately 64% of the total cost of water and sewer supplies in the FY2021 budget. During the first 10 years, the cumulative present value of savings is approximately US\$820,000.

2. ELIGIBILITY

2.1. Project Type

The Project complies with the requirements of ProRec, as the sponsor is a public entity whose mandate is aligned with the NADB mission, given that the City provides water, wastewater and solid waste services to border residents and maintains and operates related infrastructure.

2.2. Project Location

The city of Edcouch is located at the intersection of State Highway 107 and Farm Road 1015, between the cities of Elsa and La Villa and 18 miles northeast of McAllen in southeastern Hidalgo County, within the 100-km U.S.-Mexico border jurisdiction of NADB. The geographical coordinates of the town center are approximately 26°17'40.52"N and 97°57'38.09"W. Figure 1 shows the approximate location of the city.

Figure 1

CITY LOCATION MAP



2.3. Project Sponsor and Legal Authority

The public-sector Project sponsor is the City of Edcouch, which provides water, wastewater and solid waste services to its residents in Hidalgo County. The City of Edcouch has legal authority through Certificates of Convenience and Necessity (CCN) Nos. P0628 and 21077 issued by the Public Utilities Commission of the State of Texas to develop, operate and maintain water and wastewater infrastructure within Hidalgo County.²

3. CERTIFICATION CRITERIA

3.1. Technical Criteria

3.1.1. General Community Profile

The townsite was developed in 1927 and named for Edward Couch, a landowner and banker. A post office and railroad stop on the San Antonio and Aransas Pass Railway were established at Edcouch in 1927. By 1931 the town was shipping citrus fruits, vegetables and cotton, had a weekly newspaper called the *Edcouch Enterprise*, and reported a population of 914. Edcouch was incorporated in 1933, when it had t35 businesses.³

² Source: Public Utility Commission (PUC), <http://puc.texas.gov/WaterSearch/Search/Find?UtilityName=Edcouch&RepPartyName=&CCNRegnum=&UtilityTypeId=&OwnershipTypeId=&CountyId=&ActivityStatusId=>. A Certificate of Convenience and Necessity (CCN) gives the holder the exclusive right to provide retail water and/or sewer service to a specific geographic area. The CCN obligates the utility to provide continuous and adequate service to every customer who requests service in that area.

³ Source: Texas State Historical Association. Handbook of Texas, (<https://www.tshaonline.org/handbook/entries/edcouch-tx>).

According to the U.S. Census Bureau, in 2019, the population of the city of Edcouch was estimated at 3,313 residents.⁴ In 2018, its economy employed 1,260 people. The largest employers in the city were educational services (18.5%), healthcare and social assistance (17.5%) and retail trade (16.2%).⁵

Based on data reported by the U.S. Census Bureau, in 2019, the city had a poverty rate of 30.9%, significantly higher than the 13.6% poverty level estimated for the state of Texas. The median household income (MHI) in 2019 was estimated at US\$32,308 which is considerably less than the state median estimated at US\$61,874.⁶

The infrastructure and public services of the city of Edcouch are described in the following table.

**Table 1
BASIC INFRASTRUCTURE AND PUBLIC SERVICES PROVIDED BY THE CITY ***

Water			
Coverage:	100%		
Water supply source:	Rio Grande River (surface water) treated before distribution at the Edcouch Water Treatment Plant with capacity of 1.5 mgd.		
Number of hookups:	1,053		
Wastewater Collection			
Coverage:	99%		
Number of connections:	1,041		
Wastewater Treatment			
Coverage:	100%		
Treatment facilities:	Plant	Type	Capacity
	Edcouch City	Aeration lagoon	1.5 mgd

* Source: City of Edcouch
mgd = million gallons a day

⁴ Source: U.S. Census Bureau, 2019, (<https://www.census.gov/search-results.html?searchType=web&cssp=SERP&q=Edcouch%20city,%20TX>).

⁵ Source: Data USA (<https://datausa.io/profile/geo/edcouch-tx#economy>).

⁶ Source: U.S. Census Bureau, 2019, (<https://www.census.gov/search-results.html?searchType=web&cssp=SERP&q=Texas>).

Current COVID 19 Situation

Nationwide in the U.S.

According to the U.S. Center for Disease Control and Prevention (CDC) as of July 21, 2021, the United States had reported 33,588,274 COVID-19 infections with a total death toll of 603,378. The state of Texas with 3,042,524 total infections and 516,914 deaths during the same period, has the second highest number of cases in the country—just after California.⁷

To assist in the recovery from the COVID-19 pandemic, the U.S. Government has responded in several ways. In March 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was passed by Congress, providing an economic relief package exceeding US\$2 trillion. This law included the US\$150-billion Coronavirus Relief Fund to provide aid for state, local and tribal governments. It also is providing direct relief to American households, which as of June 2020, totaled US\$267 billion. Moreover, the U.S. Small Business Administration has assigned US\$376 billion in relief for American workers and small business. Likewise, the Federal Reserve established a US\$500-billion Municipal Liquidity Facility to help state and local governments better manage cash flow constraints to continue to serve households and businesses in their communities.

During 2020, the White House issued executive orders to address the COVID-19 pandemic on a variety of topics, including allocation of medical resources; extending deadlines for certain payments; and supporting the economic recovery. The Executive Branch also implemented various programs within its agencies and departments to tackle the pandemic. EPA undertook efforts to preserve the health and safety of the public, including: (i) issuing guidance on emerging viral pathogens for antimicrobial pesticides; (ii) establishing the Temporary COVID-19 Enforcement Policy; (iii) providing information on water and wastewater; (iv) identifying and providing personal protective equipment; and (v) establishing indoor air quality protection measures.

On January 21, 2021, the Biden-Harris Administration issued its National Strategy for the COVID-19 Response and Pandemic Preparedness outlining an actionable plan across the federal government to address the pandemic, including 12 initial executive actions and establishment of a COVID-19 Response Office responsible for coordinating the pandemic response across all federal departments and agencies.⁸

Water Utilities in the U.S.

In April 2020, the American Water Works Association (AWWA) estimated a US\$13.9 billion or 16.9% annual loss in the U.S. water utility sector due to the COVID-19 crisis. The negative impact would derive from water utilities suspending service shut-off for non-payment, an anticipated increase in delinquencies because of high unemployment rates, reductions in non-residential

⁷ Source: USA Facts, [<https://usafacts.org/visualizations/coronavirus-covid-19-spread-map/>]

⁸ Source: National Strategy for the COVID-19 Response and Pandemic Preparedness, https://www.nhpco.org/wp-content/uploads/White_House_National_Strategy_for_the_COVID-19_Response.pdf.

water demand and associated revenue offset by an increase in residential consumption and lower customer growth.⁹

Because of the foregoing financial impacts, AWWA anticipated that water utilities across the U.S. might delay and/or reduce annual capital investments by as much as US\$5 billion to help manage cash flows during the crisis. This reduction in capital expenditures would result in the loss of 75,000 to 90,000 private-sector jobs nationwide.

The pandemic has also reduced the availability of critical supplies for system operation, such as chemicals for water treatment, fuel for water pumps and spare parts. With the decline in income, water utilities are also struggling to cover labor costs and provide adequate personal protective equipment (PPE) for their staff. In some cases, they may also be increasing costs as they expand water services in vulnerable communities by providing access at additional water points, tanker services and other enhanced delivery mechanisms.

Finally, deferring critical capital investments to cover daily operating expenses and continuing to provide these essential services during this crisis is affecting system operation and maintenance in areas such as system expansion to unserved areas, rehabilitation of obsolete and deteriorated infrastructure and upgrades to improve services and efficiency.¹⁰

Hidalgo County

As of July 21, 2021, Hidalgo County had reported 95,707 COVID-19 infections, representing about 11% of the county population, with a total death toll of 2,930 individuals (3.3% fatality index).¹¹ These figures are slightly higher than the national percentage of the population infected (10.13%) and almost double the national fatality index of 1.8%.¹²

At the end of 2019, the unemployment rate in the county was approximately 7.0%. Following the COVID-19 outbreak, unemployment increased sharply to 17.5% in April 2020; however, recent estimates suggest that the unemployment rate had dropped to 9.7% as of May 2021.¹³ Nevertheless, unemployment continues to be well above recent historical levels.

To assist businesses with expenditures related to the cost of business interruption caused by the required lockdowns related to the COVID-19 pandemic, Hidalgo County launched the Hidalgo County CARES Small Business Grant Program, which includes funds provided by Congress through the CARES Act to support COVID-19 relief.¹⁴

⁹ Source: AWWA, *The Financial Impact of the COVID-19 Crisis on U.S. Drinking Water Utilities*. April 2020 (https://www.awwa.org/Portals/0/AWWA/Communications/AWWA-AMWA-COVID-Report_2020-04.pdf).

¹⁰ Source: Ibid.

¹¹ Source: Hidalgo County coronavirus updates, <https://www.hidalgocounty.us/2630/Coronavirus-Updates>.

¹² Source: USA Facts, <https://usafacts.org/visualizations/coronavirus-covid-19-spread-map>.

¹³ Source: Economic Research, Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/TXHIDA5URN>.

¹⁴ Source: Hidalgo County web page (<https://www.hidalgocares.org/ResourcesforBusinesses>)

City of Edcouch, Texas

While the full impact of the pandemic on the City cannot be quantified at this time, the ongoing crisis is having an adverse effect on its operations and financial condition. Some of these impacts are described below:

- Higher than usual costs related to the health and safety of its employees, including testing employees for COVID-19 and the purchase of protective gear, such as masks, gloves and disinfectants on a routine basis.
- Payroll expenses for public safety and other department staff dedicated to COVID-19 response.
- Increased costs related to City Hall safety measures, food bank distribution, public Wi-Fi and telework.

One of the cost-saving measures proposed by the City is to reduce its debt service obligations by refinancing its existing debt. The debt service savings, along with support from the federal CARES Act will help mitigate potential liquidity problems for the City and allow it to continue providing essential water, wastewater and solid waste services to its residents, while also preserving its operations and maintenance programs and preventing service interruptions amid the pandemic. The reduction of debt service obligations will also benefit City residents, as they lessen the need to raise property taxes or other fees in order to continue providing crucial public services.

3.1.2. Project Scope

The Project consists of refinancing of up to US\$1.4 million in existing debt of the City of Edcouch. The current debt will be refinanced at a lower interest rate of 3.25% and with a longer amortization period of 30 years. By refinancing, the City will reduce its annual debt service obligations and thus achieve more efficient debt service cash flows. The total reduction during the first year is US\$104,590. For comparison purposes, this amount equals approximately 64% of the total cost of water and sewer supplies in the FY2021 budget. During the first 10 years, the cumulative present value of reduced debt service obligations is approximately US\$820,000.

3.1.3. Technical Feasibility

Given the refinancing nature of the Project, a technical feasibility analysis is not applicable.

3.1.4. Land Acquisition and Right-of-way Requirements

Given the refinancing nature of the Project, land acquisition and rights of way are not applicable.

3.1.5. Project Milestones

The refinancing is expected to close in September 2021.

3.1.6. Management and Operation

The City currently provides drinking water and wastewater services to approximately 1,051 water hookups and 1,043 wastewater connections in its service area. Its systems are in full compliance with applicable water quality standards. All water and wastewater infrastructure is owned and operated by the City. Solid waste services are provided by the City through a third-party private company. The waste collected is disposed of at a landfill located in the nearby city of Edinburgh.

3.2. Environmental Criteria

3.2.1. Environmental and Health Effects/Impacts

A. Existing Conditions

The City of Edcouch provides water, wastewater and solid waste services to 3,313 residents within its jurisdiction. The proposed refinancing will provide necessary financial relief to the City, which will support the continued provision of services and future system expansion and improvements when required.

B. Project Impacts

Since the Project consists of refinancing up to US\$1.4 million in existing debt at a lower interest rate, the new loan is expected to reduce the City's debt service obligations by US\$104,590 during the first year. For comparison purposes, this amount equals approximately 64% of the total cost of water and sewer supplies in the FY2021 budget. During the first 10 years, the cumulative present value of reduced debt service obligations is approximately US\$820,000.

Residents will also benefit, as these savings will increase the financial capacity of the City and lessen the need for possible rate or tax increases in order to continue providing adequate water, wastewater and solid waste services. This benefit has become increasingly relevant in communities that have been severely impacted by the economic downturn caused by the COVID-19 pandemic.

By refinancing its debt, Edcouch will also be in a better position to continue operating its systems and/or pursue any necessary capital improvement project that may be required in the future.

C. Transboundary Impacts

Given the refinancing nature of the Project, no transboundary impacts are anticipated because of the Project.

3.2.2. Compliance with Applicable Environmental Laws and Regulations

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

A. Environmental Clearance

Given the refinancing nature of the Project, no environmental clearances are required.

B. Mitigation Measures

Given the refinancing nature of the Project, no environmental mitigation measures are necessary.

C. Pending Environmental Tasks and Authorizations

There are no environmental authorizations pending for the Project.

3.3. Financial Criteria

The City of Edcouch has requested a loan for up to US\$1.4 million from NADB to refinance its existing debt. Table 2 shows the uses and sources of funding .

Table 2
USES AND SOURCES OF FUNDS
 (US\$ million)

Uses	Amount	%
Refinancing of existing debt	\$ 1.4	100.0
TOTAL	\$ 1.4	100.0
Sources	Amount	%
NADB loan	\$ 1.4	100.0
TOTAL	\$ 1.4	100.0

Based on a thorough analysis of both the Project and the Sponsor, NADB has determined that the Project meets all eligibility criteria of the ProRec Refinancing Umbrella Program, since the City of Edcouch is a municipality that provides services aligned with the NADB mission, which are eligible for NADB financing under its certification criteria.¹⁵ It is also located within the border region as required under the NADB Charter. Moreover, the Project will help the City free up cash flows through a more efficient debt payment structure that will serve to mitigate increased operating expenditures and/or reductions in revenue caused by the COVID-19 pandemic, allowing the City to continue providing public services to its residents.

The loan is expected to be financed through certificates of obligations to be issued by the City of Edcouch. The source of payment for the loan will be an ad valorem tax on all taxable property within the City of Edcouch, at a rate sufficient, within the limit prescribed by law, to cover debt

¹⁵ The ProRec program includes loan proposals to refinance the existing debt of public entities whose mandate is aligned with the Bank’s mission. Under the program, the refinancing is intended to 1) support public sponsors facing liquidity constraints or adverse refinancing conditions because of the COVID-19 pandemic; or 2) provide more efficient debt service cash flows for the operation and maintenance of existing infrastructure.

service payments. The revenue collected will be irrevocably pledged and deposited to an interest and sinking fund for the payment of the NADB loan.

The refinancing will extend the final maturity to 30 years to help lower annual debt service obligations that currently average around US\$ 141,000. The total reduction in debt service obligations during the first year will be US\$104,590. For comparison purposes, this amount equals approximately 64% of the total cost of water and sewer supplies in the FY2021 budget. During the first 10 years, the cumulative present value of debt service obligation is approximately US\$820,000. The savings resulting from reduced debt service obligations will directly benefit city residents by increasing the City's financial capacity to maintain existing infrastructure and services without placing any additional property tax burden on the city residents.

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. Moreover, considering the Project's characteristics and based on the financial and risk analysis performed, the proposed Project is financially feasible and presents an acceptable level of risk.

4. PUBLIC ACCESS TO INFORMATION

4.1 Public Consultation

NADB published the draft project proposal for a 30-day public comment period that began August 6, 2021 and ended on September 5, 2021, with no comments received.

4.2 Outreach Activities

NADB 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.