CERTIFICATION AND FINANCING PROPOSAL

WATER SYSTEM IMPROVEMENTS PROJECT IN PRESIDIO, TEXAS

Submitted: October 15, 2019

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EXECUTIVE SUMMARY

WATER SYSTEM IMPROVEMENTS PROJECT IN PRESIDIO, TEXAS

Project: The proposed project consists of improvements to the drinking water system in the city of Presidio, Texas ("the Project"). These improvements include the construction of a transmission line between two storage tanks, a new water line along U.S. Highway 67 to provide first-time service to 10 residential customers, a new booster station and a new 50,000-gallon water storage tank.

Project Objective: The purpose of the Project is to provide reliable and sustainable drinking water service and reduce the human health risks associated with waterborne diseases, by improving system infrastructure to address service interruptions and water losses resulting from frequent line breaks caused by excessive pressure and by extending the distribution system to an unserved area.

Expected Outcomes: The Project is expected to generate environmental and human health benefits related to the following outcomes:

- Improve access to reliable and sustainable drinking water services for 1,783 existing residential connections and provide first-time access to 10 homes.
- Improve water resource management by preventing at least 80,000 gallons per day in water losses from the distribution system, equivalent to reducing current water losses from approximately 30% to less than or equal to 20%.
- Maintain drinking water quality within regulatory standards demonstrated through compliance reporting.

Population to Benefit: 4,000 residents of Presidio, Texas.

Project Sponsor: City of Presidio, Texas.

Estimated Construction Cost: US$3,800,000.

NADB Grant: US$3,000,000 grant from the Border Environment Infrastructure Fund (BEIF) funded by the U.S. Environmental Protection Agency (EPA).

NADB Loan: Up to US$800,000

Uses and Sources of Funds:
(US$)

Uses	Amount	%
Construction*	$ 3,800,000	100.0
TOTAL	**$ 3,800,000**	**100.0**

Sources	Amount	%
NADB-BEIF (EPA grant)	$ 3,000,000	79.0
NADB loan	800,000	21.0
TOTAL	**$ 3,800,000**	**100.0**

* Estimated cost includes supervision and contingencies.

Interest Rate: A fixed market-rate in U.S. dollars.

Grace Period Up to twenty-four (24) months

Repayment Period: Up to three hundred (300) months.

Repayment Source:

1. City revenue from an annual ad valorem tax levied against all taxable property within the city at a rate sufficient, within the limit prescribed by law, to cover the debt service payments.

2. A limited pledge of US$1,000 of surplus revenue from the City's Waterworks and Sewer System (the "System").

Interest Payments: Semi-annual.

Principal Payments: Annual.

Debt Service Coverage Ratio (DSCR): A minimum DSCR of 1.00x shall be required.

Project Status:

Key Milestones	Status
Environmental clearance – U.S.	Completed
Final design	Completed
Procurement	Anticipated in 1st quarter of 2020
Construction period	Estimated to be 12 months

CERTIFICATION AND FINANCING PROPOSAL

WATER SYSTEM IMPROVEMENTS PROJECT IN PRESIDIO, TEXAS

1. PROJECT OBJECTIVE AND EXPECTED OUTCOMES

The proposed project consists of improvements to the drinking water system in the city of Presidio, Texas (the "Project"). The purpose of the Project is to provide reliable and sustainable drinking water service and reduce the human health risks associated with waterborne diseases by improving system infrastructure to address service interruptions and water losses resulting from frequent line breaks caused by excessive pressure and by extending the distribution system to an unserved area. The Project is expected to increase access to drinking water services for 10 households, improve system sustainability by reducing pressure in the system and protect water quality by eliminating line breaks that can lead to contamination of the water supply.

2. ELIGIBILITY

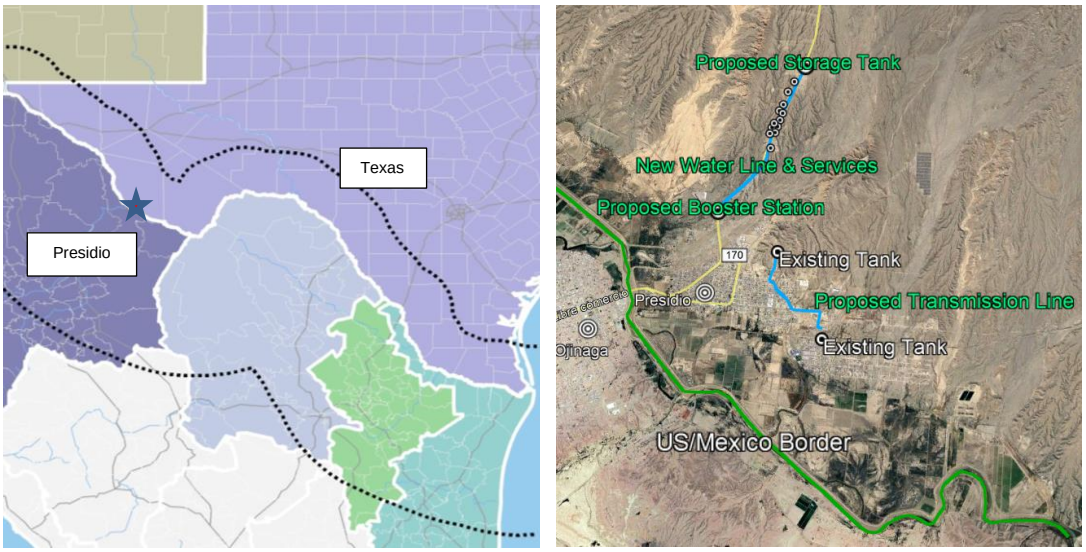
2.1. Project Type

The Project falls within the eligible category of drinking water.

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 and of the Project.

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 drinking water services within the city limits. The Texas Commission on Environmental Quality (TCEQ) issued Certificates of Convenience and Necessity (CCN) 13053 and 20959 to the City of Presidio.[1] These certificates cover the entire the city and much of its surrounding area, including the portion of U.S. Highway 67 (HWY 67) where the Project will be constructed.

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.

Presidio is an economically distressed community with an unemployment rate above 10%. 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

[1] A Certificate of Convenience and Necessity (CCN) gives the holder the exclusive right to provide retail water and/or sewer utility services to an identified geographic area.

Ojinaga, such as completing final product requirements for modular homes initially produced in Mexico, processing green chili grown in Mexico and holding cattle before sending them to Mexico for processing.

According to the 2010 U.S. Census, the population of Presidio was nearly 4,500, but current estimates indicate that it has declined to roughly 4,000. The City has a median household income (MHI) of US$ 22,959, and 29.4% of its population lives below poverty level. In comparison, the median household income of the state of Texas is US$ 57,051, and approximately 14.7% of the state population lives below poverty level.[2]

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's CCN without water service.
***Remaining 10% currently use permitted and functioning septic tanks.

Local Water and Wastewater Systems

The City of Presidio owns and operates the local water distribution system, which serves 1,783 residential water connections. The water supply source is groundwater from the West Texas Bolson Aquifer. The drinking water system includes four wells, two storage tanks, approximately 13 miles of water mains, two booster stations and a transmission line from the well field to the

[2] Source: City of Presidio website, http://www.city-data.com/city/Presidio-Texas.html, accessed on June 20, 2018.

lower storage tank. Approximately 0.8 million gallons of potable water are produced daily, which is more than sufficient to meet current demand.

The quality of the groundwater water is excellent and requires minimal treatment. It is filtered and chlorinated just prior to storage. Presidio's consumer reports show that water quality meets all TCEQ requirements. However, frequent line breaks due to high pressure in the system create conditions that expose the water in the distribution system to risks of contamination.

In addition to water quality concerns, frequent line breaks also result in water losses for the system, which impact the financial health of the utility and the sustainability of the water supply. A water audit performed during the project development process, identified real water losses in excess of 30%, mostly attributed to high water pressure leading to line breaks and joint leakage. Currently, water must be pumped through the entire distribution system to fill the upper storage tank. This configuration is energy intensive and requires extremely high pressure. Based on the water audit findings, the original scope of the Project was modified to include a dedicated transmission line to transport water from the lower to the upper tank, which will improve overall system sustainability by addressing water losses, as well as reduce risks for contamination by eliminating conditions conducive to line breaks.

While approximately 98% of households in Presidio is connected to the distribution system, the city's water delivery infrastructure does not reach homes in the area along HWY 67, leaving those residents without access to drinking water service. Residents in the area rely on hauled water for household usage, which represents a significant risk for exposure to waterborne diseases associated with improper handling or the use of improperly sanitized water tanks or storage containers. Because of these conditions, the Project was selected to receive grant funding from the Project Development Assistance Program and Border Environmental Infrastructure Fund (BEIF), which are both funded by the U.S. Environmental Protection Agency (EPA) and managed by NADB.

The City also operates a wastewater collection and treatment system, which is available to approximately 90% of its population. The unserved population resides in less populated areas that cannot easily be connected to the centralized system. Currently, the homes in the area along HWY 67, which will benefit from the proposed drinking water system improvements, do not have access to the wastewater collection infrastructure and use individual on-site systems such as septic tanks. The on-site systems are functioning properly and have been inspected and permitted by officials from Presidio County. Extending the City's wastewater infrastructure to this area has not been considered, because no problems have been identified with the on-site systems, and the costs for providing service are prohibitive.

3.1.2. Project Scope

This Project consists of improvements to the water distribution system and its extension along HWY 67. The following components will be constructed as part of the Project:

- *Waterline extension to new service area*. Activities will include the construction of approximately 16,400 linear feet of 8-inch PVC pipe, fire hydrants, gate valves and stub-

outs for 10 connections. A booster station fitted with two 40-horse-power, variable frequency drive (VFD) pumps and a 50,000-gallon elevated water tank will also be built as part of the infrastructure required to provide water to this new service area.

- *Water tank transmission line*. To connect the two existing water storage tanks a transmission line consisting of 8,400 linear feet of 12-inch PVC pipe, gate valves and three pressure relief valves will be constructed.

Figure 2 shows the layout of the transmission line, which will be installed for the specific purpose of connecting the two storage tanks. This new configuration will eliminate the need to generate high pressures to carry water through the distribution system in order to fill the upper storage tank.

Figure 2
TRANSMISSION LINE LAYOUT

Figure 3 shows the layout of the HWY 67 waterline. This new infrastructure will provide residential and commercial service and will include all standard elements associated with distribution systems such as gate valves, air relief valves, and fire hydrants.

Figure 3
HIGHWAY 67 LINE EXTENSION LAYOUT

3.1.3. Technical Feasibility

To determine the most appropriate scope for the proposed Project, a Preliminary Engineering Report was prepared. During development of the report, per capita water usage was flagged as being unusually high, and system accounts did not reflect a corresponding level of revenue generation. Therefore, a water audit was performed to identify potential reasons for this operational issue. The water audit estimated that real water losses exceed 30%, and that regular line breaks cause significant water losses and increase maintenance costs, because of the constant need for repairs and water quality management after frequent service interruptions.

Water losses from joints and line breaks have been attributed to pressures in excess of 100 pounds per second (psi) and pressure surges that result from the need to pump water from the lower water storage tank to the upper tank. The preliminary engineering report determined that a dedicated transmission line between the two tanks will isolate the rest of the distribution system

from the high pressure required to fill the upper tank and will require less energy than the existing configuration. Additionally, the installation of pressure relief valves will allow the utility to regulate pressure levels within the distribution system.

The report also evaluated several alternatives for providing service to the homes along HWY 67, including the no-action alternative. Options included the use of private wells, extending the system with and without an additional storage tank, and the feasibility of various termination points for the system extension. The no-action alternative was not considered viable because residents would remain without access to potable water and would continue to haul water for their household needs, which may pose a risk for their health. The viability for using private wells was also eliminated, because test wells, previously drilled in the area, did not produce an adequate water supply.

After eliminating the non-viable options, the feasibility of the various alternatives for extending service to the unserved residential areas along HWY 67 was evaluated using the following criteria:

- Constructability
- Balance between cost and the number of connections
- Operation and maintenance (O&M) cost
- Environmental impacts
- Topography
- Property acquisition (rights of way, easements and tank site)
- Long-term planning

The service extension alternatives analyzed in the preliminary engineering report included different termination points: Cemetery Road, Presidio Airport and Las Pampas, a cluster of homes just beyond the airport. The analysis found that water pressure beyond Cemetery Road would not be sufficient to meet regulatory requirements without an additional booster station, which would result in significantly higher capital and operational costs with very few additional connections. Therefore, the latter two options were eliminated. The report did determine that it would be feasible to extend service to the 10 connections along HWY 67 up to Cemetery Road. This alternative also has a site available for an additional water tank at the road.

Although constructing a loop in the system for the extended line would be ideal, in this case constructing a looped system along HWY 67 is not feasible because the Texas Department of Transportation (TxDOT) will only permit waterlines to be placed on one side of the highway. To offset this condition and the issues with stagnant water often associated with non-looped systems, the Project will include a small 50,000-gallon storage tank on Cemetery Road. Water pumped to the storage tank will flow back to the City's distribution system maintaining a regular flow along HWY 67. This configuration will also provide other advantages, such as providing additional storage to allow for repairs and maintenance to other storage tanks, improving regulation of system pressure and establishing greater potential for future extensions of the waterline to the airport and beyond.

Project design considers future needs and expansion, especially because Presidio County is likely to seek other funding sources to extend the waterline to the airport for economic development

opportunities. The City does not have its own design standards; therefore, TCEQ standards were used as the basis for design.[3] TCEQ design criteria provide guidelines for pipe sizing, materials, and bury depths; storage requirements; operational pressure; flow rates; and service connections, among other system component specifications.

3.1.4. Land Acquisition and Right-of-Way Requirements

The planned waterline extension will be entirely on the east side of HWY 67 and will require construction permits to work in the TxDOT right of way. As part of the design process, TxDOT reviewed the design, and modifications have been made to conform to TxDOT requirements. The TxDOT review is to ensure that disruptions to traffic are minimal during construction and that there are no long-term maintenance issues. TxDOT has specific design standards for waterline depth, casings and configuration at crossings. Most of the line will be constructed along the outer edge of the right of way and in unpaved areas. Working in these areas minimizes conflicts with traffic and eliminates paving repairs but may conflict with other underground utilities such as fiber optics and electrical lines. Special attention will need to be placed on this potential conflict during construction.

The transmission line will be built along city streets, existing easements or on city property. No additional easements are required for the transmission line. An easement for the booster station and a site for the new storage tank have both been acquired by the City for the Project. No additional land or rights of way are required.

3.1.5. Project Milestones

Project planning, environmental clearance and design tasks were completed prior to submission for certification. Once the construction supervisor and contractor have been procured, Project implementation is expected to take 12 months to complete. Issues that could affect the construction schedule are related to weather and delayed delivery of construction materials. Table 2 provides a summary of the Project milestones and their respective status.

Table 2
PROJECT MILESTONES

Key Milestones	Status
Environmental clearance – U.S.	Completed – June 19, 2017
Final design	Completed – July 2019
Procurement	Anticipated in 1st quarter of 2020
Construction period	Estimated period of 12 months

[3] TCEQ, Chapter 290 Subchapter D: Rules and Regulations for Public Water Systems.

3.1.6. Management and Operation

The operation and management of the proposed Project will be the responsibility of the City utility, which provides water, wastewater and solid waste services. The City has established procedures for the operation and maintenance of its water and wastewater systems, and its two operators are certified in their respective fields. The operators take regular training courses to maintain their licenses, which requires 30 hours of training every three years. The City's utility is fully staffed and has a good record for retaining its operational staff.

The utility will ensure that sufficient resources, training, and staff are available for the proper operation and maintenance of the new infrastructure. While the City has been successful in maintaining high water quality, the Project will address several deficiencies in the drinking water distribution system, such as line breaks and service interruptions that cause large water losses and potential water quality issues. The new storage tank, dedicated transmission line and addition of air relief valves will improve the capability of utility staff to properly maintain the system and will reduce maintenance costs. Extending service to 10 new residential connections will not have a significant impact on the utility budget or staff time requirements. The demand for water created by the additional connections will be met by existing production capacity and offset by the water savings resulting from the Project.

With respect to the financial operations of the utility, the City has recently implemented new accounting software and has been working to improve its fiscal management. Technical assistance was provided to the City for a rate study in 2014. In reviewing the Utility Enterprise Fund, which overall reflects a net income, the study found that shortfalls in cash flow from the water and wastewater services were supplemented by surplus revenue generated from solid waste services. To address these shortfalls, rate increases for both residential and commercial users were recommended.

Since 2014, Presidio has increased its residential water and wastewater rates by about 20%. Increases to the few existing commercial accounts have not been made as quickly. These rates are still roughly 10% below the levels proposed in the 2014 rate study. An affordability analysis of the current rate structure shows limited room for additional increases as residents are paying just over 2.1% of the median household income for water and wastewater services, which is well over the BEIF affordability threshold of 1.7%. The City is currently completing a new rate study and plans to consider new rate increases, as needed, in support of a financially healthy utility.

3.2. Environmental Criteria

3.2.1. Environmental and Health Effects/Impacts

A. Existing Conditions

Currently, residents along HWY 67 do not have access to the water distribution system and are forced to haul and store water on-site for their household needs. For proper storage, residents need to follow several guidelines, such as:

- Storage containers need to be constructed of a smooth non-porous, non-corrosive, non-reactive material that is resistant to chlorine and large enough to clean thoroughly.
- A regular cleaning schedule must be followed, and chlorine residual of at least 0.2 milligrams per liter (mg/L) must be maintained after one day of introducing sodium hypochlorite to the stored water.
- Hoses need to be properly stored and kept at least one foot above the ground to prevent contamination, and containers must be reserved for water storage only.

Individual on-site water tanks that are not well maintained or which are not suitable for water storage can become contaminated, increasing the risk of waterborne disease associated with the transport and storage of water.

Likewise, line breaks and leakage increase the risks of cross-contamination or backflows in the city distribution system. Line breaks also result in excessive water loss, service disruptions, lost production revenue, repair costs and loss of public confidence. Losses from joints can go undetected for years, resulting in high water losses. When these losses are finally detected, it is often due to failures such as sinkholes or roadway collapses.

The lack of access to safe and reliable drinking water could result in health and safety hazards for the public. As a reference to existing health statistics, Table 3 shows incidents rates in Presidio County, Texas for Campylobacteriosis, a disease associated with exposure to contaminated water. Incidents rates for other waterborne diseases such as Amoebiasis, Cryptosporidiosis and Shigellosis were not available.

Table 3
WATERBORNE DISEASE STATISTICS FOR PRESIDIO COUNTY, TEXAS

Disease	Number of cases/year*			
	2014	2015	2016	2017
Campylobacteriosis	0 (0)	2 (24.1)	3 (35.7)	0

*Incident rates per 100,000 people are shown in parenthesis.
Source: Automated Epidemiological Surveillance System, 2017.

B. Project Impacts

The Project is expected to increase access to drinking water services for 10 households, improve system sustainability by reducing pressure in the system and protect water quality by eliminating

line breaks that can lead to contamination of the water supply. Specifically, the Project is expected to generate environmental and human health benefits related to the following outcomes:

- Improve access to reliable and sustainable drinking water services for 1,783 existing residential connections and provide first-time access to 10 homes.
- Improve water resource management by preventing at least 80,000 gallons per day in water losses from the distribution system, equivalent to reducing current water losses from approximately 30% to less than or equal to 20%.
- Maintain drinking water quality within regulatory standards demonstrated through compliance reporting.

This Project will eliminate risks associated with on-site storage by connecting outlying homes to the city's water supply system, which is regulated and meets all TCEQ guidelines for public water systems.

To enhance the benefits of the Project, green building practices were evaluated during planning and development of the final design, including a review of individual on-site solutions versus extending centralized utility services, infrastructure improvements to minimize system losses and protect water resources, and infrastructure improvements to reduce pumping requirements and related energy consumption. Additionally, the new configuration for the transmission and storage system will allow for better pressure management in the system to support adequate water flows for distribution without risking pipe breaks due to uncontrolled high pressure.

C. Transboundary Impacts

The City extracts water from the West Texas Bolson Aquifer, which is a shared water supply source with Ojinaga, Chihuahua, Mexico. The increased demand for water due to the extension of service to 10 homes will be insignificant and represents an increase of less than one percent of the connections currently served. Furthermore, the Project will likely reduce the demand for water as it will prevent water losses in the system, which should have a positive impact on the aquifer.

No other transboundary impacts are anticipated as a result of the Project.

3.2.2. Compliance with Applicable Environmental Laws and Regulations

Since the Project will be receiving federal funds, it is subject to the National Environmental Policy Act (NEPA) clearance process (42 USC §§4321-4370f). To be eligible for funding from the U.S.-Mexico Border Water Infrastructure Program, all projects must obtain a Finding of No Significant Impact (FONSI). EPA Region 6 completed the environmental review and clearance process for this Project, in accordance with the regulations of the NEPA Council on Environmental Quality (Title 40 CFR §§1500.1-1508.28) and with EPA NEPA regulations (40 C.F.R. Part 6).

The Safe Drinking Water Act (SDWA) is the primary law regulating public water systems in the United States. In accordance with the SDWA, EPA has published regulatory requirements setting limits on contaminants allowed in drinking water. TCEQ is responsible for monitoring drinking

water systems and issuing enforcement actions in those cases where the system is not in compliance.

A. Environmental Clearance

In compliance with NEPA, an Environment Information Document (EID) was developed. The EID addresses environmental impacts resulting from the implementation of the Project. Specific areas addressed in the report include:

- Air quality, odors and greenhouse gas emissions
- Noise impacts
- Water quality, hydrology and floodplain impacts
- Impacts to biological resources and wetlands
- Impacts to cultural and historical resources
- Impacts to the geology and soils
- Impacts to municipal and public services
- Public health, hazards and waste management
- Socioeconomic conditions
- Land use and planning
- Transportation and circulation
- Utilities and service systems
- Environmental justice

The environmental studies developed for the Project did not identify any significant risks or concerns, since the Project will be primarily constructed in previously disturbed areas. No specific efforts are required to protect special habitats for endangered or threatened species in the Project area. If threatened or endangered species are encountered during construction, work will cease immediately until appropriate mitigation measures can be implemented.

Moreover, the findings reported in the Environmental Assessment indicated that the Project will not have long-term negative impacts on area water resources since construction will not impact any wetlands or nearby surface waters and may have positive impacts on groundwater. Likewise, the local air basin is not expected to be significantly altered due to the short-term nature of the construction activities and the limited number of vehicles and construction equipment used.

Based on the findings and conclusions of the EID, EPA Region 6 prepared an Environmental Assessment and a Finding of No Significant Impact (FONSI). On May 8, 2017, EPA issued a FONSI resolution for public comment establishing that the Project will not result in any significant negative impacts to the environment. After a 30-day public comment period, the NEPA process was completed on June 19, 2017.

B. Mitigation Measures

As described in the Environmental Assessment, potential impacts include:

- Surface water resources could be temporarily impacted by storm water runoff during the construction phase. The construction firm will be responsible for implementing a Storm Water Pollution Prevention Plan to minimize short-term impacts from construction.
- Noise levels are likely to be elevated during construction activities; however, this impact is short term and will be concentrated in the work area.

Typical mitigation measures to be implemented include:

- Application of water to bare soil to reduce the emission of dust particles and soil erosion;
- Placement of barriers such as straw bales and silt fences around construction zones to minimize contamination of surface waters from site runoff;
- Construction will normally occur between 8 a.m. and 5 p.m. to avoid noise disruptions extending into the evening.
- Vehicle tune-ups to reduce emissions and noise effects;
- Placement of warning signs to prevent potentially hazardous situations;
- All construction personnel will attend a briefing describing the potential impacts of construction activities and to familiarize workers with the mitigation measures.

By following best management practices as described in the Environmental Assessment, temporary impacts due to construction will be minimized. Moreover, the results from the implementation of the proposed Project will be positive overall. The Environmental Assessment identified the project as having a positive environmental effect by enhancing public health and protecting the local water supply, a natural resource.

C. Pending Environmental Tasks and Authorizations

There are no environmental authorizations pending.

3.3. Financial Criteria

3.3.1 Sources and Uses of Funds

The total estimated cost of the Project is US$3,800,000, which includes construction, supervision, and contingencies. The Sponsor has requested a BEIF grant and NADB loan to support the implementation of the Project. Based on a thorough analysis of both the Project and the Sponsor, NADB has determined that the Project meets all BEIF program criteria and is recommending that EPA approve a BEIF grant for up to US$3,000,000 for its construction. NADB is also proposing to provide an US$800,000 loan to complete the financial structure of the project. Table 4 shows a breakdown of the uses and sources of funding.

Table 4
USES AND SOURCES OF FUNDS
(US $)

Uses	Amount	%
Construction*	$ 3,800,000	100.0
TOTAL	**$ 3,800,000**	**100.0**
Sources	**Amount**	**%**
NADB-BEIF (EPA grant)	$ 3,000,000	79.0
NADB loan	800,000	21.0
TOTAL	**$ 3,800,000**	**100.0**

* Estimated costs include supervision and contingencies.

The combination of a BEIF grant with a loan component is intended to provide taxpayers with the most affordable financial package. Based on this analysis, the rate increases that would be needed to support the Project if it were financed entirely with debt are not likely to be feasible for Presidio residents. The city is an economically challenged community with limited access to traditional financial markets. Area wealth income indicators are considered low compared to national and state medians. The median household income (MHI) in 2017 was estimated at US$22,959, which is 34% less than the state MHI of US$57,051, and the poverty level for the city of Presidio is estimated at 29.4%, considerably higher than the 14.7% poverty level estimated for the state. [4]

The BEIF grant will help reduce the financial burden of the loan on City taxpayers. However, given the constraints of these grant funds, a US$3,000,000 BEIF construction assistance grant is the maximum amount available for the Project. Therefore, the City will establish a dedicated source of payment for the loan needed to cover the remaining Project costs, which will enable the City to implement the Project and keep the average water and wastewater rates from increasing above their current levels.

3.3.2 Loan Payment Mechanism

The loan payment mechanism is consistent with the well-established municipal bond market in the United States. The loan will be in the form of a Combination Tax and Revenue Certificates of Obligation, Series 2019 debt instrument (the "Loan"). The source of payment for the Loan will be an ad valorem tax per $100 of assessed value on all taxable property within the city, at a rate sufficient, within the limit prescribed by law, to pay debt service requirements, plus a limited pledge of US$1,000 of surplus revenue from the City's Waterworks and Sewer System ("the System"). As US$1,000 is not a sufficient pledge to cover any debt service obligations, the primary source of revenue is the levy and collection of the ad valorem tax on all taxable property.

The Sponsor will establish a special fund or account to be designated the "City of Presidio, Texas Certificates of Obligation, Series 2019A, Interest and Sinking Fund" (the "Interest and Sinking

[4] Source: U.S. Census Bureau, QuickFacts.

Fund") to be maintained at an official depository bank of the City separate and apart from all other funds and accounts of the City.

The proceeds from all taxes levied, assessed and collected shall be deposited into the Interest and Sinking Fund. The ad valorem tax collection and all amounts on deposit in or required to be deposited in the Interest and Sinking Fund will be pledged irrevocably to the payment of the principal and interest on the Loan in accordance with the repayment schedule agreed by the Sponsor and NADB.

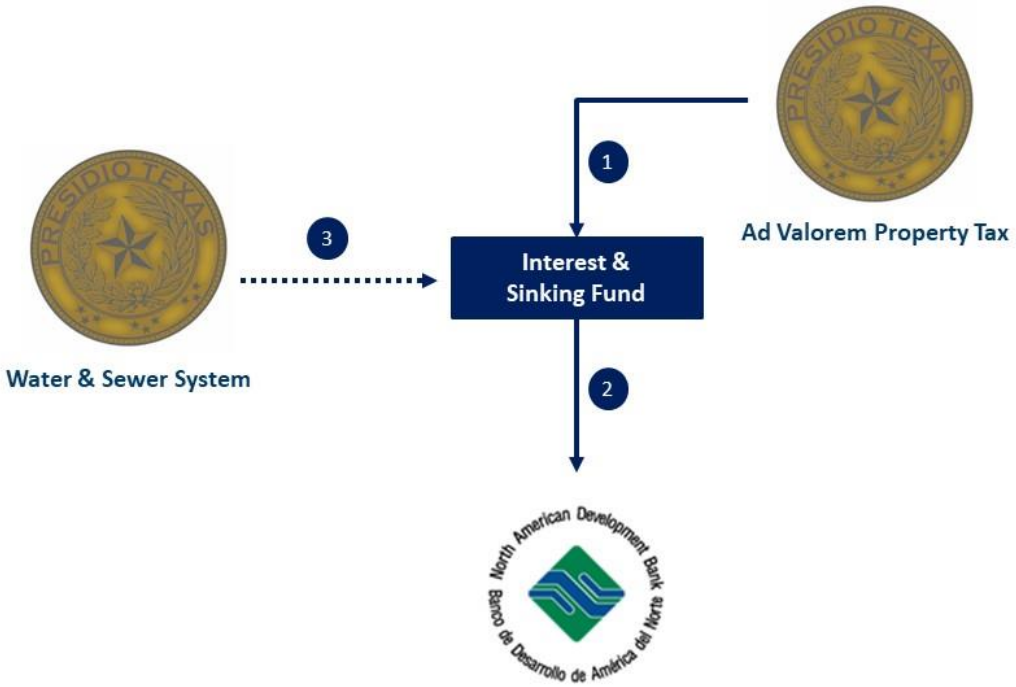
NADB will receive payments on the Loan through a paying agent contracted by the City during the execution of the certificates of obligation. The following diagram illustrates the loan payment mechanism.

1. The Presidio County Tax Assessor/Collector will deposit levied property taxes into the Interest and Sinking Fund.

2. Through the paying agent contracted, the City will pay semi-annual interest and annual principal debt service payments to NADB.

3. In the event the levied property taxed are insufficient to cover debt service, the City will transfer pledged surplus revenue from the System.

Figure 4
LOAN PAYMENT MECHANISM



3.3.3 Financial Analysis

The purpose of this section is to evaluate the financial viability of the Project by conducting a thorough analysis of the City and the sufficiency of its principal source of payment for the Loan. The analysis considers the City's existing obligations, as well as the new projected obligations contracted for the construction of the Project.

A. Texas Property Tax System

In Texas, property taxes are locally based and administered. Local governments set tax rates and collect property taxes to finance infrastructure projects and services, including schools, roadways, parks, and other services. The State of Texas does not have a state property tax.

State law has established a process to be followed by local governments for the implementation of property value assessments, implementation of tax rates, and collection of taxes. This institutional framework for the Texas property tax system has been considered very strong when compared to the nation by Moody's Investors Service.[5]

The pledge to levy ad valorem property taxes to repay bondholders has proven its durability over many decades. As the bedrock of local government finance, revenue from ad valorem taxes is considered stable, as unpredictable revenue fluctuations tend to be minor. Historically, property taxes are more stable through economic cycles than other government revenue, such as sales tax and income tax. Even during depressed real estate cycles, property tax revenue has proven to remain stable, primarily due to the way local governments operate under a balanced budget and set property tax rates based on budgetary needs. If property values decline, the City will still have the legal ability to increase the tax rate to achieve an unchanged or increased levy. Furthermore, changes in the market value of taxable properties usually translate to the property tax bill in a one-year lag, helping smooth out economic cycles.

The institutional framework of the local government general obligation pledge has proven to be extremely strong due to stable property tax revenue and predictable and level debt service obligations using amortizing debt structures, which mitigates interest rate risk and the spikes in debt service obligations prevalent in other sectors. Moreover, local governments are perpetual entities that typically have a monopoly on providing essential services like providing drinking water, as in the case of the Project.

Default on general obligation debt is exceedingly rare. Only five defaults on city general obligation bonds have occurred since 1970, and the average ultimate recovery rate is 69%.[6]

Tax Rate Limitation

As previously stated in Section 3.3.2., the source of payment for the Loan will be an ad valorem tax per US$100 of assessed value on all taxable property within the city, at a rate sufficient, within the limit prescribed by law, to pay debt service requirements. One of the primary limits prescribed

[5] Source: Moody's Investor Service, US Local Government General Obligation Debt Municipal Bond Defaults and Recoveries 1970-2017, December 16, 2016.
[6] Source: Moody's Investor Service, US Municipal Bond Defaults and Recoveries 1970-2018, August 6, 2019.

by law, as described in Texas Constitution (Article XI, Section 4) is that a city with a population 5,000 or less may levy, assess and collect such taxes at a tax rate capacity of US$1.50 per US$100 of the taxable property of such city.

Figure 5
HISTORICAL DISTRIBUTION OF PROPERTY TAX RATE FOR THE CITY OF PRESIDIO, TEXAS

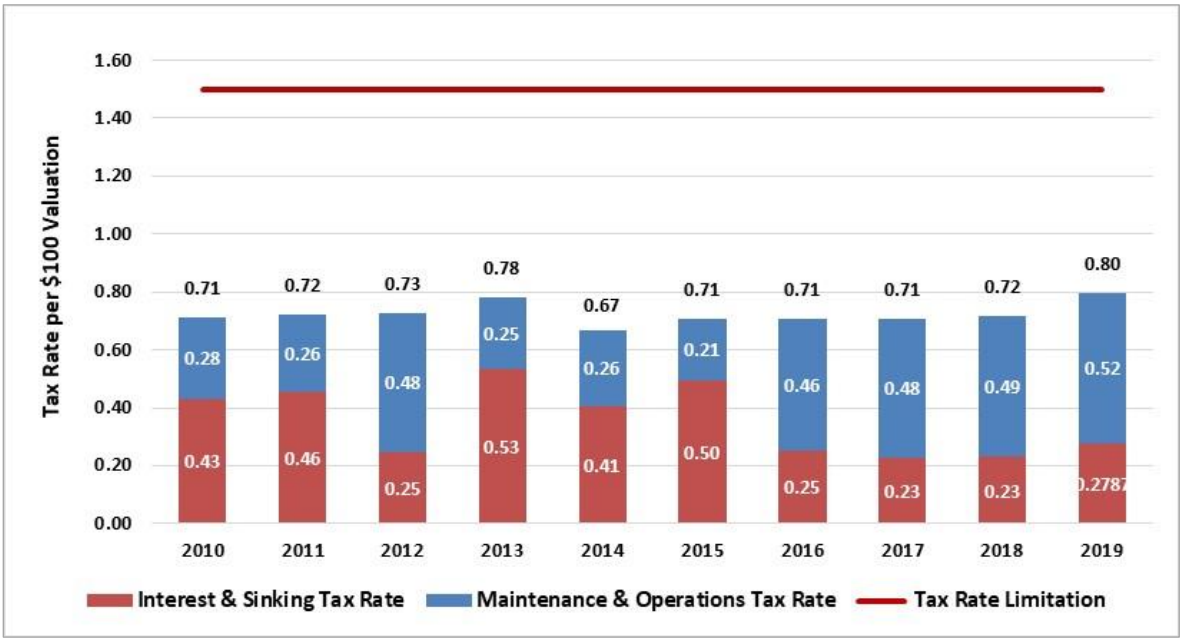


Figure 5 illustrates the City's historical tax rate distribution by the Interest and Sinking Fund (I&S) tax rate and Maintenance and Operation (M&O) tax rate. The proportion of ad valorem tax allocated to debt service fluctuates with debt service requirements. The drop from US$0.50 to US$0.25 in 2016 is primarily due to the maturity of existing debt.

As shown in Figure 5, the City has significant revenue raising capacity within the tax rate limitation imposed by state law. Using the 2019 total tax rate of US$0.80 per US$100 of assessed value, the City can legally increase the combined tax levy to US$2.0 million or 1.9x the current levy of US$1.0 million, and still be within the state limit of US$1.50 for the general fund. The City's significant capacity to increase rates within the limitations of state law, coupled with the commission to operate on a balanced budget, strengthens the creditworthiness of the source of payment and the City's ability to generate sufficient revenue to cover debt service and maintenance and operations.

City Tax Base

The ultimate basis for repaying City debt is the strength of the local economy. The size, diversity and strength of the City's tax base drives its ability to generate sufficient revenue. As an ad valorem pledge is the primary source of revenue, the health of the tax base plays a crucial role in the security of the repayment.

Table 5
TAX BASE HISTORY
(US$)

Tax Year	Estimated Population	Taxable Assessed Valuation	Taxable Value Per Capita	Gross Debt Outstanding	Debt to Taxable Value
2009	4,426	$ 72,441,926	$ 1,356	$ 857,527	1.2%
2010	4,461	73,858,806	16,557	853,853	1.2%
2011	4,400	75,685,547	17,201	1,481,892	2.0%
2012	4,333	75,759,710	17,484	1,113,887	1.5%
2013	4,205	79,308,690	18,861	4,119,187	5.2%
2014	4,100	99,951,370	24,378	3,721,251	3.7%
2015	4,041	101,848,666	25,204	3,292,712	3.2%
2016	4,118	108,108,788	26,253	2,859,879	2.6%
2017	4,098	117,819,367	28,750	2,260,687	1.9%
2018	3,991	116,353,880	29,154	2,009,581	1.7%

Table 5 provides the historical evolution of the City's tax base over the last ten years. When compared to U.S. medians for cities, several of the City's tax base indicators are considered weaker. In 2018, the median taxable property value per capita was US$29,154 compared to the national median of US$93,785 and a median of US$64,588 for A-rated cities with a population of less than 50,000.[7] Likewise, in 2018, the median debt to taxable value was 1.7%, compared to the U.S. median of 1.1% and a median of 1.6% for A-rated cities with a population less than 50,000. While this comparison to U.S. medians demonstrates that the City is a smaller, economically challenged community, the historical trends are positive. While the estimated population has declined 9.8% over the past 10 years, the assessed value of taxable property has increased 60.6%, growing at an average annual rate of 5.4%. Moreover, as property values have increased, outstanding debt has been contained, reflecting a downward trend since 2013, as the ratio of debt to taxable value has decreased from 5.2% to 1.7%.

[7] Source: Moody's Investor Service, Local Government – US Medians, May 9, 2019.

Figure 6
2018 ASSESSED VALUE BY PROPERTY TYPE

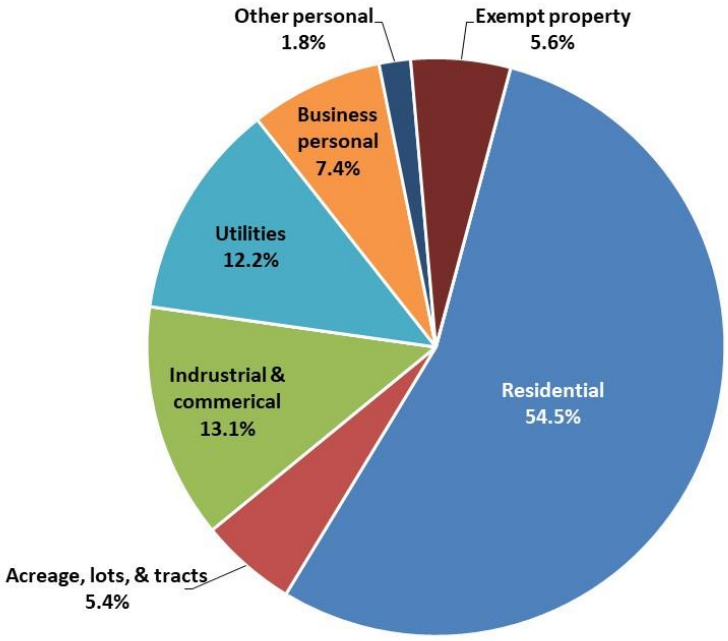


Figure 6 demonstrates that the City's tax base is heavily derived from the residential market and industrial and commercial market, accounting for 54.5% and 13.1%, respectively, of the assessed property value for 2018. There has been minimal volatility in the allocation of assessed value by type over the last five years, as the residential and industrial & commercial markets accounted for 53.5% and 17.4%, respectively, in 2014.

With such a heavy concentration of its tax base in residential properties, a depressed real estate cycle could have a negative impact on the overall tax base. Yet, historically, assessed property values in the City remained stable during the 2008-2009 financial crisis. Furthermore, in the event of depressed property values, property tax revenue is expected to remain stable, primarily because the City operates under a balanced budget and sets the property tax rates based on budgetary needs. If property values decline, the City will still have the legal capacity to increase the tax rate to achieve an unchanged or increased levy. Additionally, changes in the market value of taxable properties usually translate to the property tax bill in a one-year lag, helping smooth out economic cycles.

Property Tax Collection History

One of the key credit strengths of the property tax system is the efficacy in which levied taxes are collected. Revenue forecasting is critical, as an overly optimistic revenue budget can lead to a shortfall to cover expenses. Table 6 below demonstrates the City's property tax collection history. The City had a property tax collection rate of 90.8% for 2018 and an average of 87% since 2009. Though the collection rate is not considered strong when compared to larger local governments

collection rates, it may still be considered reasonable and there is sufficient historical data to budget projected revenues properly. Moreover, in the event of tax delinquencies, the property owner's tax account incurs an initial penalty based on the amount due and accrues additional penalties each month it remains past due. Additionally, at any time after taxes due become delinquent, the City may file suit to foreclosure the property to enforce personal liability for the tax.

Table 6
PROPERTY TAX COLLECTION HISTORY

Tax Year	Tax Levy	% Total Collections
2009	496,879	87.1%
2010	525,358	87.1%
2011	544,633	84.1%
2012	551,682	87.1%
2013	618,528	89.3%
2014	667,055	87.0%
2015	720,233	84.4%
2016	764,502	86.0%
2017	833,171	88.0%
2018	833,582	90.8%

B. Historical Analysis of the City

The audited annual financial statements of the City of Presidio are prepared in accordance with accounting principles generally accepted in the United States of America. For fiscal years 2013-2017, the City received an adverse opinion from an independent auditor stating the financial statements do not present fairly the financial position of the City. In result, the City hired a new City Administrator during mid-2016 to address the issue of its financial reporting. The City Administrator has stated that the 2017 financial statements are considered the most reliable to reflect the financial position of the City. Also, the 2018 financial statements are not currently available, with a draft expected by the end of 2019. Since the Project has a strong environmental benefit, the City has poor socioeconomic indicators, the loan component is small, and the ultimate revenue source has an institutional framework that has proven to be extremely strong, the Bank will continue to pursue financing for the Project. The historical analysis will show the previous five years for which information is available, but the emphasis is on the 2017 data, during this portion of the analysis.

The financial statements distinguish between government activities (services supported by taxes), and business-type activities (services provided through the collection of user fees and charges). Furthermore, the City has multiple, distinct governmental funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. As a result, the City also provides more detailed and specific financial statements separated by fund to focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Since the source of payment of the Project is an ad valorem property tax, NADB mainly focused its analysis on the

near-term inflows and outflows presented in the General Fund financial statements. This analysis also evaluates the capacity of the City to meet its debt service obligations.

A summary of the annual financial reports on the General Fund from 2013 to 2017 is presented in Table 5 to provide an overview of the City's financial and operational performance.

Table 7
CITY OF PRESIDIO GENERAL FUND FINANCIAL STATEMENTS
(US$ Millions)

BALANCE SHEETS					
	2013	**2014**	**2015**	**2016**	**2017**
Cash and cash equivalents	$ 0.44	$ 0.24	$ 0.25	$ 1.23	$ 1.05
Other current assets	0.21	0.32	0.80	0.33	0.40
Total assets	**$ 0.65**	**$ 0.55**	**$ 1.06**	**$ 1.56**	**$ 1.44**
Current liabilities	$ 0.12	$ 0.04	$ 0.58	$ 2.90	$ 0.61
Total liabilities	**0.12**	**0.04**	**0.58**	**2.90**	**0.61**
Restricted	0.04	0.01	0.01	0.01	0.02
Unassigned	0.49	0.50	0.47	(1.35)	0.81
Total fund balance	**0.53**	**0.51**	**0.48**	**(1.34)**	**0.83**
Total liabilities & fund balance	**$ 0.65**	**$ 0.55**	**$ 1.06**	**$ 1.56**	**$ 1.44**

STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES					
	2013	**2014**	**2015**	**2016**	**2017**
Property taxes	$ 0.55	$ 0.62	$ 0.66	$ 0.72	$ 1.09
Sales taxes	0.59	0.00	0.42	0.00	0.40
Other revenue	1.35	3.12	1.45	1.62	1.99
Total revenue	**2.50**	**3.74**	**2.53**	**2.34**	**3.48**
Maintenance and operations	3.65	4.01	3.28	3.01	3.44
Debt service	0.84	0.47	0.10	0.10	0.47
Total expenses	**4.49**	**4.47**	**3.38**	**3.11**	**3.90**
Other financing sources (uses)	**2.39**	**0.71**	**0.82**	**(1.06)**	**2.60**
Net change to fund balance	**$ 0.40**	**$ (0.02)**	**$ (0.03)**	**$ (1.82)**	**$ 2.18**
Beginning fund balance	$ 0.13	$ 0.53	$ 0.51	$ 0.48	$ (1.34)
Ending fund balance	**0.53**	**0.51**	**0.48**	**(1.34)**	**0.83**

Table 8
CITY OF PRESIDIO FINANCIAL RATIOS

	2013	2014	2015	2016	2017
Current ratio	5.40	12.34	1.83	0.54	2.37
Fund balance as % of revenue	21.3%	13.6%	18.9%	-57.4%	24.0%
Cash balance as % of revenue	17.5%	6.3%	10.0%	52.7%	30.1%

As shown in Table 7, the City's most stable source of operational revenue is derived from the receipts of ad valorem property taxation, accounting for 31% of revenue in 2017.

Historically, the City has operated on a budget that relied on both revenue from its governmental activities and other financing sources to cover debt service obligations and maintenance and operation expenses. This trend demonstrates how the City transfers excess revenue from other funds, specifically the System, to cover General Fund obligations.

A positive indicator is the City's cash position of US$1.05 million, or 30.1% of revenues, in 2017. This cash position compares favorably to the level of BBB-rated cities with a population less than 50,000, which is at 19.6%.[8] A healthy cash position is considered a safeguard to absorb any unexpected shortfall in revenues or increase in expenses. Another positive indicator is the growth trend in property tax revenue with an average annual growth rate of 18.6% since 2013 and an increase of 51.5% in 2017 alone. The growth in property tax revenue is due to the City's ability to adjust the tax rate to meet budgetary needs.

Due to the adverse audit opinions, a comparison of historical trends cannot be made with any certainty, yet the City seems to be in a healthier financial position now compared to the previous four years. Since 2013, revenue has increased by 39.3% or at an average annual rate of 8.65%, while maintenance and operation expenses have decreased 5.8% or at an average annual rate of 1.5% and debt service has decreased from US$0.84 million to US$0.47 million. It should also be noted that despite its historical financial distress, the City has never defaulted on the payment of its debt service obligations.

C. Financial Projections of the City

To determine whether the City can meet its obligations associated with the Project, NADB performed a financial analysis which includes adjustments to both I&S and M&O tax rates in the coming fiscal years. Projections were developed based on historical figures and current efficiency levels, as well as the current economic outlook. The main assumptions include:

- *Basis for projections*: City historical financial statements.
- *Property Tax Revenue*: Based on the amount, within the limit prescribed by law, to pay debt service requirements (I&S) and Maintenance and Operation (M&O) expenses.
- *Maintenance and Operation (M&O) expenses*: Based on the amount to maintain a total tax rate equivalent to the City's current tax rate of US$0.80 per US$100 of assessed value.

[8] Source: Moody's Investor Service, Local government – US Medians, May 6, 2019, page 10.

- *Current debt*: Based on the City's outstanding debt.

Table 9 shows projected cash flows for the duration of the NADB Loan.

Table 9
PROJECTED CASH FLOW
(US$ Thousands)

Year	Property Tax Revenue	M&O Expenses	Cash Available for Debt Service	Debt Service	Change in Fund Balance	DSCR
2020	$ 950	$ 584	$ 366	$ 365	$ 1	1.00x
2021	960	592	368	367	1	1.00x
2022	969	601	368	368	1	1.00x
2023	979	784	195	195	1	1.00x
2024	989	798	191	190	1	1.00x
2025	998	838	160	160	1	1.00x
2026	1,008	864	144	144	1	1.00x
2027	1,019	872	147	146	1	1.01x
2028	1,029	885	144	143	1	1.01x
2029	1,039	1,002	37	36	1	1.01x
2030	1,049	1,013	36	36	1	1.00x
2031	1,060	1,023	37	37	1	1.02x
2032	1,070	1,034	36	36	1	1.00x
2033	1,081	1,044	37	36	1	1.01x
2034	1,092	1,055	37	37	1	1.01x
2035	1,103	1,066	37	36	1	1.02x
2036	1,114	1,074	40	39	1	1.02x
2037	1,125	1,083	42	42	1	1.01x
2038	1,136	1,091	45	44	1	1.00x
2039	1,148	1,100	48	47	1	1.02x
2040	1,159	1,108	51	51	1	1.01x
2041	1,171	1,117	54	54	1	1.01x
2042	1,182	1,125	57	57	1	1.00x
2043	1,194	1,133	61	61	1	1.00x
2044	1,206	1,142	64	64	1	1.01x
2045	1,218	1,150	68	68	1	1.00x

DSCR = Debt service coverage ratio; M&O = Maintenance and operation.

D. Project Debt Service Coverage Ratio (DSCR)

In accordance with NADB loan policies, the formula for calculating the DCSR for the proposed loan shall be based on the characteristics of the transaction and/or borrower and payment mechanism. For this transaction, the DCSR is defined as the Cash Flow Available for Debt Service (CFADS), which is equal to (Revenues – Maintenance & Operation Expenses) divided by Debt Service (Principal + Interest) for all general obligation debt.

Pursuant to NADB loan policies and given the nature of the City's institutional framework for operating on a balanced budget, the debt service payments have been structured to maintain at all times a minimum DSCR of at least 1.00x throughout the term of the Loan in accordance with the following formula:

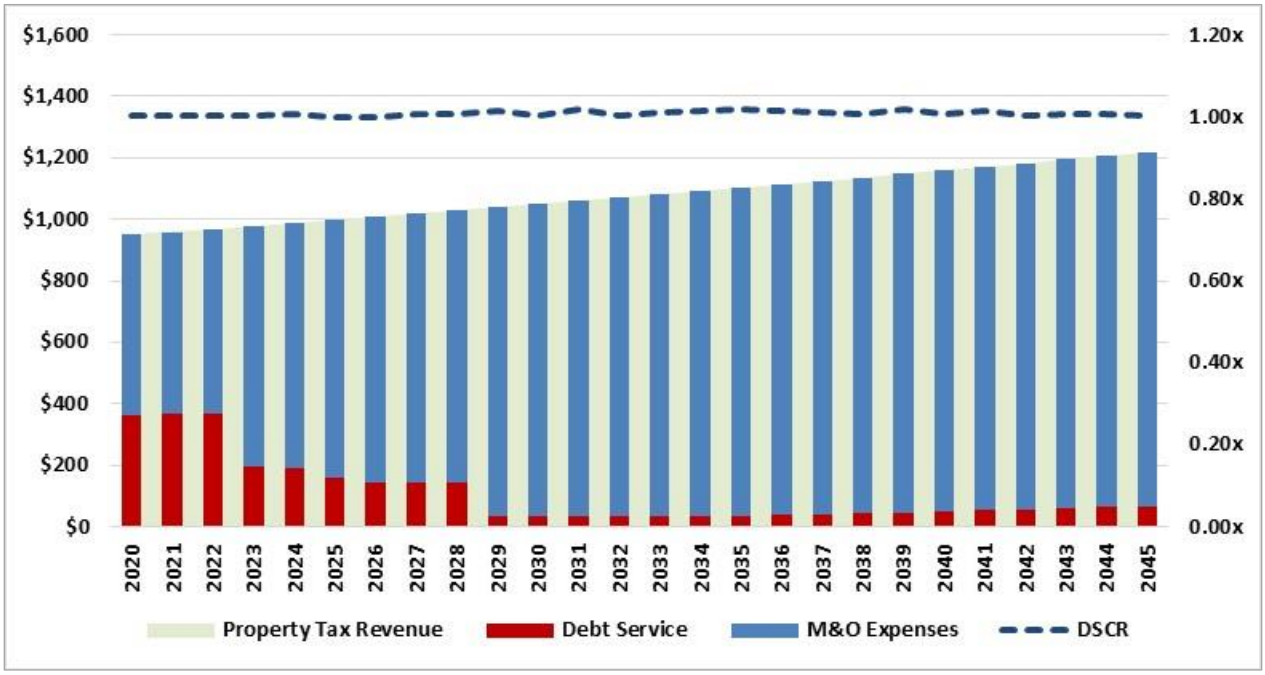
$$DSCR = \frac{(Revenues - Operational\ Expenses)}{(Principal + Interest)}$$

=

$$DSCR = \frac{CFADS}{Debt\ Service}$$

Figure 7 illustrates the projected distribution of Project cash flows.

Figure 7
PROJECTED CASH FLOW ANALYSIS
(US$ Thousands)



DSCR = Debt service coverage ratio; M&O = Maintenance and operation.

The typical debt service coverage ratio for a municipal entity is 1.00x. The City is to operate under a balanced budget and set property tax rates based on the budget requirements for following fiscal year. Based on the strong and proven institutional framework of the Texas property tax system, with levied property taxes balanced to the following year's budget, NADB considers the pledged cash flows to be sufficient to cover the financial obligations of the Project.

3.3.4. Risk Analysis

The purpose of this section is to assess the City's ability to address any adverse changes that could impact the repayment of the debt.

A. Quantitative Project Risks

1. *Increase in Total Project Cost*. An increase in Project costs is not anticipated; however, in the event there is unexpected increase in the cost, it will be covered by a 13% contingency reserve built into the Project cost.

2. *Increase in Operating Expenses*: Since the Loan will be repaid with a pledged ad valorem tax, an increase in operating expenses will not impact its repayment. The City will levy a specific ad valorem property tax for the Project, within the limits prescribed by law, on all taxable property in the city, and the tax revenue collected will be used solely to cover the debt service payments of the Loan.

3. *Decrease in Revenue*: Since the source of payment for the Loan is the revenue deriving from a property tax assessed and levied by the City, a decline in taxable values or in tax collection rates could result in less property tax revenue for debt service. However, the City has the capacity to increase the tax rate within the limits prescribed by law and has pledged to maintain the rates at a level sufficient to cover debt service on the Loan. The City had a property tax collection rate of 90.8% for 2018 and an average of 87% since 2009. Though the collection rate is not considered strong when compared to the rates of larger local governments, there is sufficient historical data to properly budget projected revenues. Furthermore, the City's currently has a strong cash position to absorb an unexpected drop in revenues. Finally, the City has never defaulted on the payment of its debt obligations.

4. *Tax-raising Limitation*: While the tax rate is limited by state statute to US$1.50 per US$100 of the taxable property, the City has significant tax-raising flexibility well below the state statute. For fiscal year 2019 the total tax rate is US$0.80 per US$100 of assessed value and US0.28 is pledged to an interest and sinking fund. The City can legally increase the combined tax levy 1.9x the current levy of US$1.0 million, and still be within the state limit of US$1.50 for the general fund. The City's significant capacity to increase rates within the limitations of state law, coupled with the commission to operate on a balanced budget, strengthens the creditworthiness of the source of payment and the City's ability to generate sufficient revenue to cover debt service and maintenance and operations.

B Qualitative Project Risks

1. *Financial/Administrative*: The financial position of the City is weak; however, there are indications of improvement. By the end of fiscal year 2017, the City had improved its net position with a positive general fund balance of US$0.83 million and a cash balance of US$1.05 million. Furthermore, a new City Administrator was hired mid-2016 to bring experience and stability to the financial administration of the city government and eventually remove the adverse opinion of its financial statements.

2. *Economic*: Despite the economic uplift provided by its location on the U.S. and Mexico border and increased international trade activity, the City's socioeconomic profile is weak. The unemployment rate in the county is approximately 7.0%.[9] The poverty level for the city of Presidio is estimated at 29.4%, considerably higher than the 14.7% poverty level estimated for the state.[10] Area wealth levels as measured by per capita income are also very low. Nevertheless, since 2009, the assessed value of taxable property has increased 60.6%, growing at an average annual rate of 5.4%.

3. *Political/Legal*: The risk associated with changes in administration or government officials would not result in non-payment of the Loan. The City, by approval of the Certificates of Obligation, irrevocably authorizes the levy of ad valorem taxes to pay principal and interest on the Loans.

4. *Technical*: The technical risk related to the Project is low as the key milestones have already been completed. The City of Presidio owns the property and rights-of way, and no additional land or easements are required to implement the Project. Additionally, the design has been finalized and all necessary authorizations have been obtained. The Project Sponsor is ready to initiate procurement for supervision services and construction once the financing has been approved. The utility will ensure that sufficient resources, training, and staff are available for the proper operation and maintenance of the new infrastructure. While the City has been successful in maintaining high water quality, the Project will address several deficiencies in the drinking water distribution system, such as line breaks and service interruptions that cause large water losses and potential water quality issues. The new storage tank, dedicated transmission line and addition of air relief valves will improve the capability of utility staff to properly maintain the system and will reduce maintenance costs.

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 September 9, 2019. The following Project documentation is available upon request:

- Final Design for Presidio Water System Improvements dated July 2019;
- Preliminary Engineering Report for the Presidio Water System Improvements, For the City of Presidio, Texas – June 2016;
- Environmental Information Document, Presidio Water System Improvements, September 2016; and

[9] Source: U.S. Bureau of Labor Statistics.
[10] Source: U.S. Census Bureau, QuickFacts.

- Environmental Assessment and Finding of No Significant Impact for Drinking Water Infrastructure Construction Project, June 19, 2017.

The public comment period ended on October 9, 2019, with no comments received.

4.2. Outreach Activities

The City of Presidio has led outreach efforts to obtain community support for the Project and to publicize Project impacts, including improved service, the extension of service and costs. In accordance with the public outreach requirements of the BEIF program, outreach activities included the establishment of a local steering committee, public meetings and adequate access to project information, as described in the Public Participation Plan.

The local steering committee was established in May 2017 and included eleven members of the community, as well as a technical support group consisting of village staff and the project engineers. The steering committee developed a Public Participation Plan and periodically met with the Project team to help the utility disseminate information regarding the Project. The Plan included providing technical and financial information about the Project to the community using a Project fact sheet and by holding two public meetings.

The first public meeting was held on October 5, 2015, in support of the of the NEPA process. At this meeting, the purpose of the Project was described, conceptual plans were shared, and a preliminary cost estimate was provided. The development process was also explained. Attendees were surveyed during the event, and 100% of respondents expressed their support for the Project.

On September 11, 2019, a public meeting was held in support of the Project in conjunction with a regular council meeting, as the City Council had requested an update on the status of the Project. There were 20 attendees at the meeting, including five City Council members. The presentation covered a description of the Project, its benefits and the need for the Project, its anticipated costs and financial impacts to the community and the anticipated construction schedule. The attendees did not ask any questions during the presentation. The city council members provided positive feedback in support of the Project. After the public meeting, a few members of the public approached NADB staff and the project engineer to ask about bidding for Project construction.

In addition to local outreach activities, a public comment process was conducted in relation to the publication of the environmental clearance finding beginning on May 8, 2017.

NADB also conducted a media search to identify potential public opinion about the Project. Only one article was identified with information specific to the proposed Project. On August 9, 2019, *Big Bend Sentinel* published the article "*Presidio takes early steps to expand its water system*."[11] The article discussed the benefits of the Project, both for residents along HWY 67 who will receive

[11] Source: https://bigbendsentinel.com/2019/08/07/presidio-takes-early-steps-to-expand-its-water-system/

first-time access to service and the overall benefits of the Project to the community, such as providing redundancy in the water system to allow for other rehabilitation projects in the future.

The activities carried out by the Project Sponsor and the article identified above demonstrate that the public received updates related to the Project, including its technical aspects, environmental effects, disruptions from construction, funding structure and financial impacts. The Project Sponsor informed NADB that no comments expressing concern about the Project have been received during the public outreach process.

5. RECOMMENDATION

Certification Criteria Compliance

The Project falls within the eligible sector of water and is located within the border region, as required under the NADB Charter. The 30-day public comment period ended on October 9, 2019, with no comments received. The project review performed by the NADB Chief Environmental Officer confirms that the Project complies with all the certification requirements, and there are no pending activities required for compliance.

Funding Criteria Compliance

The Project Sponsor applied for funding through the U.S.-Mexico Border Program FY11/12 prioritization process and was selected to receive technical assistance through the Project Development Assistance Program (PDAP) and construction assistance through the Border Environment Infrastructure Fund (BEIF). The project meets all BEIF program criteria, and EPA has approved a BEIF grant for up to US$3,000,000 for project construction.

Additionally, considering that the Project has a strong environmental benefit, the loan component accounts for a limited portion of the Project cost, and the payment source has an institutional framework that has proven to be extremely strong, the proposed Project is financially feasible and presents an acceptable level of risk. Furthermore, the proposed financing meets all the requirements of NADB's loan policies; therefore, NADB proposes providing a market-rate loan for up to US$800,000 to the City of Presidio, Texas, in accordance with the terms and conditions proposed in Annex B.

Accordingly, based on the foregoing conclusions as supported and presented in detail in this certification and financing proposal, NADB hereby recommends certification of the Project and approval of the proposed Loan.