CERTIFICATION AND FINANCING PROPOSAL

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

Submitted: September 11, 2020

BOARD APPROVAL TIMELINE

REFINANCING OF EXISTING DEBT FOR THE CITY OF PRESIDIO, TEXAS

UNDER THE NADB COVID-19 RECOVERY PROGRAM

Milestones	Date
Public comment period begins (30 days)	05/Aug/20
Public comment period ends	04/Sep/20
Board submittal for initial review	11/Sep/20
Initial Board review ends (21 days)	02/Oct/20
Initial NADB response period (10 days)	12/Oct/20
Additional Board review (14 days)	26/Oct/20
Additional NADB response period (7 days)	02/Nov/20
Board voting deadline (14 days)	16/Nov/20

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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.[1]

Project Objective: The purpose of the Project is to refinance US$1.40 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. These services include water, sewer, wastewater treatment, storm drainage, solid waste collection and disposal, emergency response, street paving, public lighting, and public library, among others.

Expected Outcomes: Refinancing the existing debt, which has a weighted average interest rate of 3.11%, will alleviate the liquidity position of the City of Presidio. The City currently pays about US$330,000 annually in debt service. The refinancing is expected to reduce annual debt service payments by roughly US$250,000 during the first two years of the loan.

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

Population to Benefit: 3,900 residents of the City of Presidio, Texas.

Project Sponsor: City of Presidio, Texas.

Borrower: City of Presidio, Texas.

[1] During its virtual meeting in May 2020, the NADB Board of Directors approved the 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 by improving their liquidity position and helping them continue to provide public services for the benefit of border residents.

Project Cost: US$1,400,000.

NADB Loan: Up to US$1,400,000, through the COVID-19 Recovery Program.

Uses and Sources of Funds:
(US$)

Uses	Amount	%
Refinancing	$ 1,400,000	100.0
TOTAL	**$ 1,400,000**	**100.0**
Sources	**Amount**	**%**
NADB loan	$ 1,400,000	100.0
TOTAL	**$ 1,400,000**	**100.0**

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

Grace Period: None.

Repayment Period: Up to two hundred forty-three (243) months.

Repayment Source: 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.

Interest Payments: Semi-annual.

Principal Payments: Annual.

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

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"), which will be implemented under the NADB COVID-19 Recovery Program (ProRec).[2] The purpose of the Project is to alleviate the liquidity position of the City by reducing its annual debt service obligations and freeing up funds to support the maintenance and operation of existing infrastructure and help the City continue to provide public services for the benefit of its residents. The refinancing is expected to reduce current debt service by roughly US$250,000 annually during the first two years of the NADB loan. These savings will benefit city residents, as they will also give the City more financial flexibility, lessening the need for fee or rate adjustments to support public services in the community.

2. ELIGIBILITY

2.1. Project Type

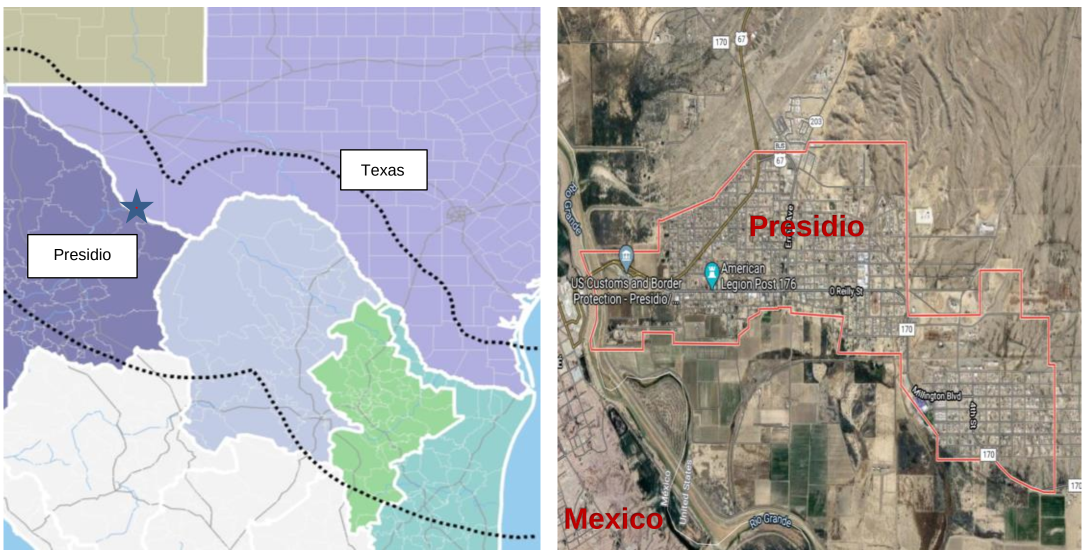
The Project complies with the ProRec requirements, as the sponsor is a public entity whose mandate is aligned with the NADB mission, since the City provides public services to border residents and is responsible for maintaining and operating public infrastructure. Among the services provided are drinking 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 continue to operate and maintain infrastructure that falls within the eligible categories under the NADB mandate.

[2] During its virtual meeting in May 2020, the NADB Board of Directors approved the 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, by improving their liquidity position and helping them continue to provide public services for the benefit of border residents.

2.2. Project Location

The city of Presidio is located adjacent to the U.S.-Mexico border in the Big Bend region of Texas, directly across the Rio Grande from Ojinaga, Chihuahua. Presidio is one of the larger towns in this area and has a major international border crossing. The closest major U.S. cities are El Paso and Midland-Odessa, both of which are approximately 200 miles away. 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

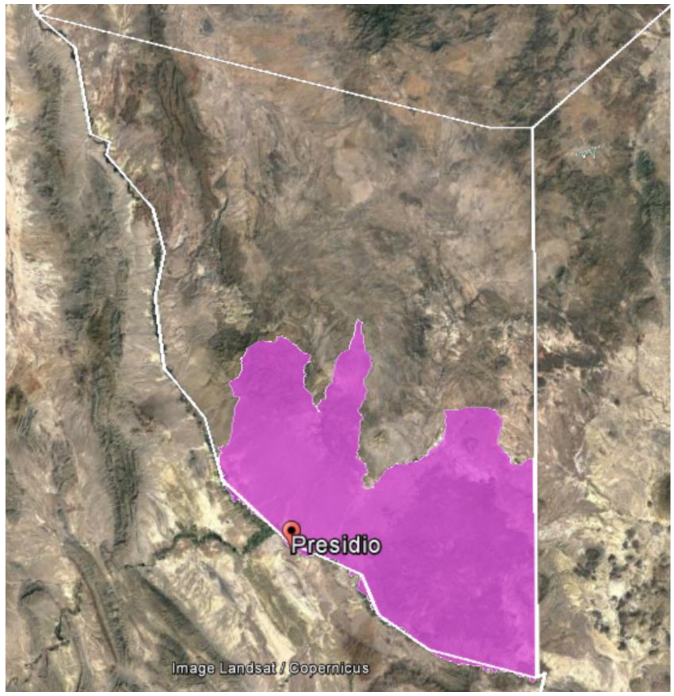


Due to its precarious economic situation, the city of Presidio has been designated as a Qualified Opportunity Zone (QOZ). The QOZ Program was created through the Tax Cuts & Jobs Act of 2017 and is a federal initiative administered by the U.S. Department of Treasury. The program is designed to spur economic development and job creation in distressed communities throughout the United States. It offers incentives, in the form of capital gains tax abatement, for those who invest eligible capital in QOZ assets even if they do not live, work or have an existing business within such zones.[3]

On March 22, 2018, Governor Greg Abbott submitted the state's QOZ designations to the U.S. Treasury Department to encourage long-term investment in eligible Texas communities. A multi-step process was used to identify eligible areas in Texas, in particular need due to chronic unemployment, low population density and significant economic disruptors, such as natural disasters. Figure 2 shows the location of the city of Presidio within the Presidio County and the corresponding QOZ.

[3] Source: Internal Revenue Service, https://www.irs.gov/credits-deductions/opportunity-zones-frequently-asked-questions.

Figure 2
QUALIFIED OPPORTUNITY ZONE



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

According to the 2010 U.S. Census, the population of the City of Presidio was nearly 4,500; however, current estimates indicate that it has declined to roughly 3,900. The City had a median household income (MHI) of US$26,737 in 2017, and 25.3% of its population was living below poverty level.[4] In comparison, the median household income of the state of Texas was US$59,570, and approximately 14.9% of the state population was living below poverty level.[5]

[4] Source: City of Presidio, http://www.city-data.com/city/Presidio-Texas.html, accessed on August 19, 2020.
[5] Source: U.S. Census Bureau, https://www.census.gov/quickfacts/fact/table/TX/RHI125219.

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.

<u>Current COVID 19 Situation</u>

<u>Nationwide in the U.S.</u>

Since the outbreak in March 2020, the virus has been spreading exponentially to all nations and all U.S. states. According to the U.S. Center for Disease Control and Prevention (CDC) as of September 8, 2020, the United States had reported 6,277,310 COVID-19 infections with a total death toll of 188,145. The state of Texas with 650,678 total infections and 13,548 deaths for the same period, has the 2nd highest number of cases in the country—just after California.[6]

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 assigned US$376 billion in relief for American workers and small business. Likewise, the Federal Reserve established a

[6] Source: USAFacts, https://usafacts.org/visualizations/coronavirus-covid-19-spread-map/.

US$500 billion Municipal Liquidity Facility to help state and local governments better manage cash flow constraints in order to continue to serve households and businesses in their communities.

The White House has issued 13 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 has also implemented various programs within its agencies and departments to tackle the pandemic. In particular, EPA has undertaken efforts to preserve the health and safety of the public, including: (i) issuing guidance on recycling and the sustainable management of food during the COVID-19 public health emergency; (ii) providing information on drinking water and wastewater; (iv) identifying and providing personal protective equipment; and (iv) guidance on preventing indoor transmission of the coronavirus.[7]

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 main source of income is revenue from the international port of entry. With the shutdown of the international bridge, crossings have been reduced by 70%. Presidio also benefits from its commercial relationship with Ojinaga, which has an estimated population of 22,700, more than five times the size of Presidio. The fact that the international bridge has been closed for non-essential purposes has kept Ojinaga residents from crossing the border, thus reducing commercial activity in Presidio.

The City has seen its sales tax decline by as much as 22% and has also experienced delays in receiving utility bill payments from residents. The City is expecting to end the fiscal year with a budget shortfall of up to 15%.

Unemployment in the community has also increased because of the pandemic. Prior to the closure of the economy, the unemployment rate was estimated at around 8.5%. Since then, the unemployment rate has risen to 22.9%, one of the highest rates in the state of Texas.[8]

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

- Refinance its current debt to improve its liquidity and provide more efficient debt service cash flows.
- Stop providing nonessential services, such as access to the public library and activity center.

[7] Source: EPA, https://www.epa.gov/coronavirus.
[8] Source: Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/TXPRES7URN.

- Lay off workers and leave positions vacant when workers retire.
- Postpone capital investment projects, such as expanding the operational building and acquiring equipment for the landfill and upgrading wastewater lift stations.

Regarding the pandemic itself, residents that require 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 covered by the City itself, since most of the residents of Presidio cannot afford to pay them. According to the Texas Department of Health and Human Services, as of September 8, 2020, 91 people have tested positive for COVID-19 in Presidio County, and five of them have died.[9]

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 ProRec Program.

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 right-of-way requirements are not applicable.

3.1.5. Project Milestones

The refinancing is expected to close in November 2020.

3.1.6. Management and Operation

Given the refinancing nature of the Project, management and operation activities are not applicable.

[9] Source: Texas Department of Health and Human Services, https://www.dshs.texas.gov/coronavirus/.

3.2. Environmental Criteria

3.2.1. Environmental and Health Effects/Impacts

A. Existing Conditions

Presidio provides basic services to most of its residents, but shortcomings still exist. Specifically, not all households have access to drinking water. Approximately 2% of homes within the City are not connected to the water distribution system and need to haul water for household usage, which poses a significant risk for exposure to waterborne diseases associated with improper handling or sanitation of water tanks or storage containers.

In order to address this situation, the City developed a project to improve its water distribution system, which includes extending the water service to 10 homes. In November 2019, the project was approved by the NADB Board of Directors and is receiving both a US$1.5 million NADB loan and a US$3.0 million grant though the Board Environment Infrastructure Fund (BEIF).[10] This project is currently being implemented.

B. Project Impacts

The Project is expected to help the City of Presidio improve its liquidity position by reducing its annual debt service obligations and thus free up funds to support the operation and maintenance of existing infrastructure and help the City continue providing public services for the benefit of its residents, including water and wastewater, storm drainage, and waste collection and disposal, among others. Based on the City's approved 2020 fiscal year budget, the savings associated with the refinancing will represent 20% of its water & sewer expenses in fiscal year 2021.

In addition, the NADB loan will give the City greater financial flexibility and lessen pressures that could impact the fees or rates of public services. This factor has become increasingly relevant in communities that have been severely impacted by the economic slowdown caused by the COVID-19 pandemic.

C. Transboundary Impacts

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

3.2.2. Compliance with Applicable Environmental Laws and Regulations

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

[10] In November 2019, the Board approved the certification of the project with an estimated cost of US$3.8 million, along with a NADB loan for up to US$800,000. After construction bids were received, the total project cost increased to US$4.5 million, and a US$700,000 loan increase was approved by the Board in August 2020.

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

3.3.1. Sources and Uses of Funds

The Project Sponsor has requested a NADB loan to refinance US$1.4 million in existing debt. Table 2 presents a breakdown of the estimated Project costs and proposed sources of funding.

Table 2
USES AND SOURCES OF FUNDS
(US $)

Uses	Amount	%
City Existing Debt*	$ 1,400,000	100.0
TOTAL	**$ 1,400,000**	**100.0**
Sources	**Amount**	**%**
NADB Loan	$ 1,400,000	100.0
TOTAL	**$ 1,400,000**	**100.0**

* Includes financing costs.

The recently approved 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 as a result of the COVID-19 pandemic; or 2) provide more efficient debt service cash flows for the operation and maintenance of existing and recently upgraded infrastructure.

The City has roughly US$1.4 million in outstanding debt with a final maturity of roughly eight years. By refinancing the existing debt at a lower interest rate and extending the final maturity to 20 years, the City will reduce its annual debt service obligations, thus achieving more efficient debt service cash flows. For the next two fiscal years, debt service obligations are expected to decrease by US$260,000 and US$240,000, or 79% and 73%, respectfully. Cash flow savings are roughly US$40,000 for years 3 and 4 and approximately US$20,000 through the end of year 8.

The initial expected annual savings of US$260,000 represents 28.9% of the City's water-related expenses and 16.2% of its combined expenses for water, wastewater and waste management services in its approved 2020 budget. The savings will provide critical liquidity for the City to continue to provide essential services, including drinking water, wastewater, waste disposal, road maintenance, public safety, and health services. Due to the negative economic impacts caused by the pandemic, the City expects a cash flow shortfall of up to 15% under its approved 2020 fiscal year budget. To help cover the reduction in cash flow, the City has reduced expenses to essentials, as well as the number of City employees from 39 to 32. The cash flow savings will provide relief to tight budget constraints and help preserve the City's workforce.

Moreover, the debt service savings from the refinancing will benefit city residents, since the City will be able to continue investing in capital improvement projects without placing any additional property tax burden on its residents. Specifically, by the end of the year the Bank is expected to fund a loan of up to US$1.5 million for a US$4.5 million drinking water project certified in November 2019. The cash flow savings from refinancing the existing debt will cover 100% of the debt service from the US$1.5-million NADB loan for the water project, thereby reducing the need for the City to further increase property tax rates to pay for the water project in implementation.

As will be explained in detail in the following sections, even though the proposed loan has a proven repayment source, the City is a small community with several weak financial indicators, which pose a repayment risk. However, the savings from the refinancing will significantly reduce debt service obligations during the initial years of the loan amortization, which will help mitigate the repayment risk during the most economically distressed fiscal years caused by the pandemic. For this reason, as well as the small size of the loan, the Bank is pursuing financing for the proposed Project.

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 limited tax refunding bond, series 2020 debt instrument (the "Loan"). 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.

The Sponsor will establish a special fund or account to be designated the "City of Presidio, Texas Limited Tax Refunding Bonds, Series 2020, Interest and Sinking Fund" (the "Interest and Sinking Fund") to be maintained at an official depository bank of the City separate and apart from all other funds and accounts of the City.

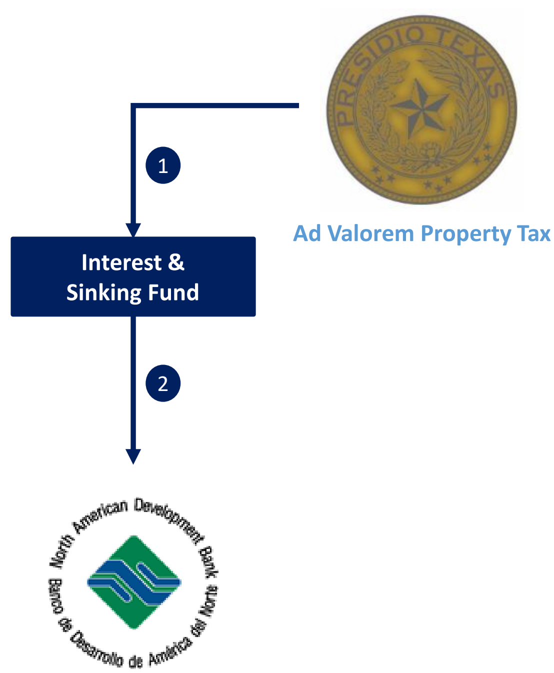
The proceeds from all taxes levied, assessed and collected shall be deposited into the Interest and Sinking Fund. The ad valorem tax collection and all amounts on deposit in or required to be deposited in the Interest and Sinking Fund will be pledged irrevocably to the payment of the principal and interest 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, the City will pay semi-annual interest and annual principal debt service payments to NADB.

Figure 3
LOAN PAYMENT MECHANISM



3.3.3 Financial Analysis of the Source of Payment

The purpose of this section is to perform 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 to be contracted under the debt refinancing.

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.[11]

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 water and waste disposal.

Over the last 48 years, default on general obligation debt has been exceedingly rare. Nationally, only eight defaults on general obligation bonds from a city or county have occurred since 1970, and the average ultimate recovery rate is 75%.[12] Specifically, five defaults have occurred on city general obligation debt, with one in 1987, 2009, 2012, and two in 2013. Historically, the average ultimate recovery rate on city defaulted general obligation debt is 69%.

Expanding the timeframe to include the Great Depression, it is estimated 4,770 municipal issuers defaulted during the Depression era.[13] The early 20th century experienced a boom in municipal issuance primarily attributable to the inception of the federal income tax in 1913 and the popularization of automobile travel, as automobiles created a need for paved roads, which local governments often financed with bonds. The initial municipal issuance boom led to many municipalities to become over leveraged with a heavy reliance on one source of income. As the crisis of the Great Depression hit, many municipal issuers were not able to cover debt service obligations. Therefore, even though the last half century has recorded a very strong default and recovery rate, it is imperative to evaluate the underlying fundamental credit indicators. The following sections evaluate the fundamental credit indicators for the City.

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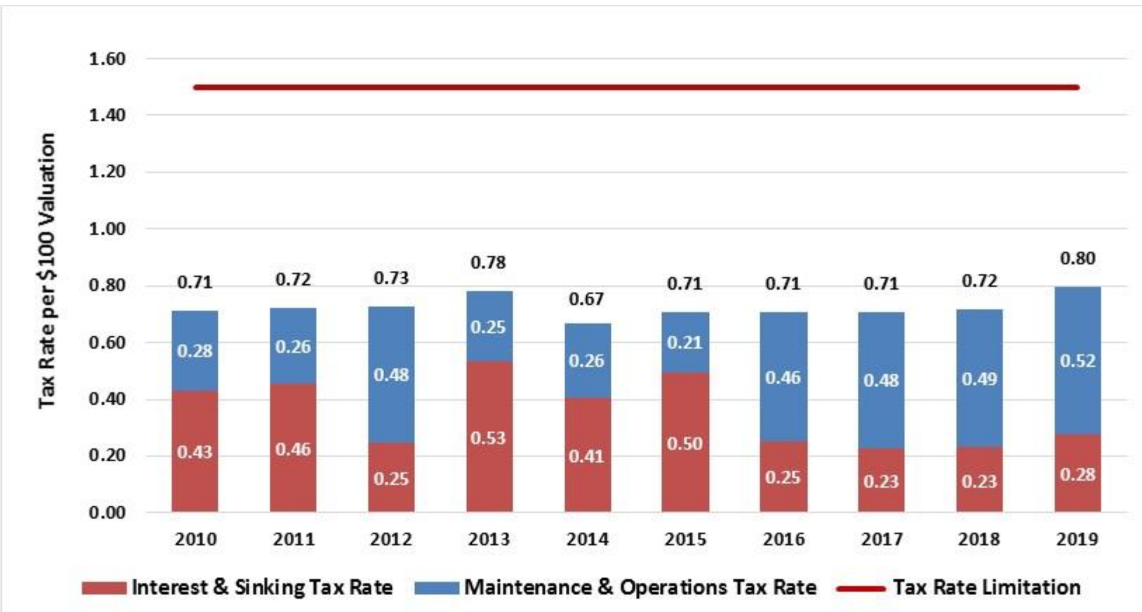
[11] Source: Moody's Investor Service, US Local Government General Obligation Debt Municipal Bond Defaults and Recoveries 1970-2017, December 16, 2016.
[12] Source: Moody's Investor Service, US Municipal Bond Defaults and Recoveries 1970-2018, August 6, 2019.
[13] Source: Advisor Perspectives, History of Municipal Bond Defaults, June 17, 2020.

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 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. The Attorney General of Texas is responsible for reviewing all new local government debt issuances to ensure their compliance with the law. Prior to financial closing, the Attorney General is required to release an opinion stating the Bonds are within the limits prescribed by law.

Figure 4
HISTORICAL DISTRIBUTION OF PROPERTY TAX RATE FOR THE CITY OF PRESIDIO, TEXAS



The figure above 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 total tax rate experienced a drop in 2014, primarily attributable to an increase in taxable assessed values. 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 4, 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. As the I&S tax rate for new debt is directly administered by the Attorney General of Texas, the measurement of the tax rate limitation is intended to measure the rate capacity set by state law to determine the flexibility of the growth projections and the implementation of capital improvement projects. 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 local government debt is the strength of the local economy. The size, diversity and strength of its 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 3
TAX BASE HISTORY OF THE CITY OF PRESISIO, TEXAS
(US$)

Tax Year	Estimated Population	Taxable Assessed Valuation	Taxable Value Per Capita	Gross Debt Outstanding	Debt to Taxable Value
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%
2019	3,894	135,631,774	34,831	1,841,825	1.4%
National Median for A-rated Cities with a Population of Less than 50,000					
A-rated	<50,000	591,131,000	64,588	9,458,096	1.6%

Table 3 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 weak. In 2019, the median taxable property value per capita was US$34,831 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.[14] In 2019, the median debt-to-taxable value was 1.4%, which is comparable 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. However, due to the City's significantly smaller tax base, any additional debt would have a substantial impact on the health of the ratio. For example, for fiscal year 2020, the City anticipates an additional US$1.5 million in debt, which will move the debt-to-taxable value ratio to 2.3%.

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

Moreover, the estimated population has declined 12.7% over the past 10 years, or at an average annual decline 1.5%. For a small community with weak indicators, a shrinking population is a negative trend. During this same timeframe, the assessed value of taxable property has increased 83.6%, growing at an average annual rate of 7.0%. The significant percentage increase to the taxable assessed valuation is relative to the small tax base. One of the largest year-over-year movements occurred in 2014 with an increase of US$20.6 million or 26.0% in the taxable assessed valuation and an increase of US$5,518 or 29.3% in the taxable value per capita.

The 2014 increase in the assessed value of properties was a remedy for poor results from the biennial Property Value Study (PVS) produced by the Texas Comptroller Office. The primary purpose of the PVS is to help ensure equitable distribution of state funding for public education. The secondary purpose is to collect data to provide taxpayers, school districts, appraisal districts and the legislature with measures of appraisal district performance. If poor results from the PVS are continuous, the state may have grounds to step in, set a master appraiser and run the district. One of the key measurements in the PVS is the Price-Related Differential ratio which measures the assessed valuations to market selling prices. The PVS uses a standard set by the International Association of Assessing Officers (IAAO) of 0.98 to 1.03. In 2013, the City reported an overall ratio of 1.26, indicating assessed valuations were undervalued compared to selling prices. The Presidio County Appraisal District contracted a consulting firm to assist with the appraisals within its jurisdiction and implemented the increase in assessed valuations in 2014. The 2014 increase in the assessed value of properties was coupled with a drop in the total tax rate from US$0.78 to US$0.67 per US$100 of assessed value which lessened the impact on its residents.

To date, the Presidio County Appraisal District continues to contract a consultant to assist with the property assessed valuations within its jurisdiction. For 2019, the PVS recorded a price-related differential of 1.01 for the City, indicating significant improvement and accurate assessed valuations within the City. The historical increase in property assessment valuations is a positive trend, but it must be further noted, even with the increase, the City taxable value per capita was 62.9% less than the national average and 46.1% less than A-rated cities with a population less than 50,000. The analysis of the City's tax base demonstrates that it is a smaller, economically challenged community.

Figure 5
2019 ASSESSED VALUE BY PROPERTY TYPE

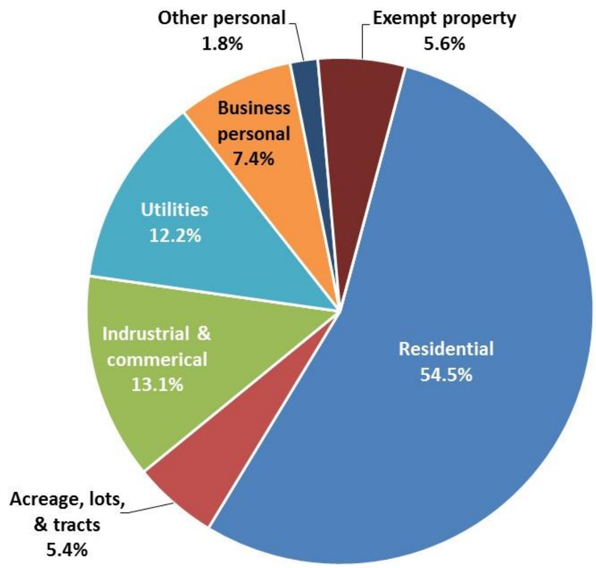


Figure 5 demonstrates that the City's tax base is heavily derived from the residential market and industrial and commercial market, accounting for 54.5% and 13.1%, respectively, of the assessed property value for 2019. There has been minimal volatility in the allocation of assessed value by type over 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 4 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. 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 4
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 were 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 that the financial statements do not fairly present the financial position of the City. As a result, the City hired a new City Administrator mid-2016 to address the issue of its financial reporting, implemented new accounting software in 2018 and contracted a consultant for bookkeeping services in the spring of 2019. The City Administrator has stated that the 2017 financial statements are considered the most reliable in reflecting the financial position of the City. The 2018 financial statements are not currently available, with the audit expected to be approved by the end of September 2020. The Bank has been working closely with the City and its external auditor to ensure the City becomes current with its financial statements. Since the fiscal year 2018 audited financial statements have taken over a year to complete, the Bank is also exploring the possibility of providing Technical Assistance funds to ensure the fiscal year 2019 financial statements are completed before the end of 2020. The City and the external auditor have both made commitments to expedite and complete the fiscal year 2019 audited financial statements by the end of this year. NADB will include a covenant in the bond order requiring the fiscal year 2019 audit to be completed by the end of the year.

Since the Project will assist a city that has been severely impacted by the COVID-19 pandemic, coupled with the fact that the loan component is small, the ultimate revenue source has an institutional framework that has proven to be strong, and the refinancing will provide significant cash flow savings during the initial years which will help mitigate the repayment risk during the most economically distressed fiscal years caused by the pandemic, the Bank intends 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 5
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 6
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%

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 at the end of 2017 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.

The negative economic effects of the COVID-19 pandemic have placed additional stress on the community. The City expects a cash flow shortfall of roughly 15% in its approved fiscal year 2020 budget. The shortfall is primarily attributed to a higher unemployment rate, which is currently at 22.9%[15] and translates into less disposable income for residents and lower sales tax revenue for the City. The City has also incurred additional expenses related to its response to the pandemic, such as providing emergency medical services (EMS) to transport ill residents to the nearest emergency facility 85 miles away in Alpine, Texas. The City is bearing the cost of a low EMS collection rate as it continues to provide this service during the pandemic. To help cover the reduction in cash flow, the City has reduced expenses to the essentials, as well as reduced the number of City employees from 39 to 32. The property tax revenue used to pay the City's debt service has not yet been affected, and the City has paid all debt service for the current fiscal year.

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 Interest and Sinking Fund (I&S) and Maintenance and Operation (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.
- *M&O expenses*: A growth rate of 3.5% over the amount of taxes levied the prior year.
- *Current debt*: Based on the City's outstanding debt.

[15] Source: Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/TXPRES7URN

Table 7 shows projected cash flows for the duration of the NADB Loan.

Table 7
PROJECTED CASH FLOW
(US$ Thousands)

Year	Property Tax Revenue	M&O Expenses	Cash Available for Debt Service	Debt Service	Change in Fund Balance	DSCR
2021	$ 846	$ 733	$ 113	$ 112	$ 1	1.01x
2022	892	759	133	133	1	1.01x
2023	952	785	167	166	1	1.00x
2024	982	813	169	169	1	1.00x
2025	1,008	841	167	166	1	1.01x
2026	1,039	871	168	168	1	1.00x
2027	1,072	901	171	170	1	1.00x
2028	1,100	933	167	167	1	1.00x
2029	1,130	965	165	164	1	1.00x
2030	1,171	999	172	171	1	1.00x
2031	1,202	1,034	168	168	1	1.00x
2032	1,235	1,070	165	165	1	1.00x
2033	1,275	1,108	167	166	1	1.01x
2034	1,315	1,146	169	168	1	1.00x
2035	1,356	1,186	170	169	1	1.00x
2036	1,394	1,228	166	166	1	1.00x
2037	1,443	1,271	172	172	1	1.00x
2038	1,484	1,315	169	168	1	1.00x
2039	1,526	1,361	165	164	1	1.00x
2040	1,579	1,409	170	170	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:

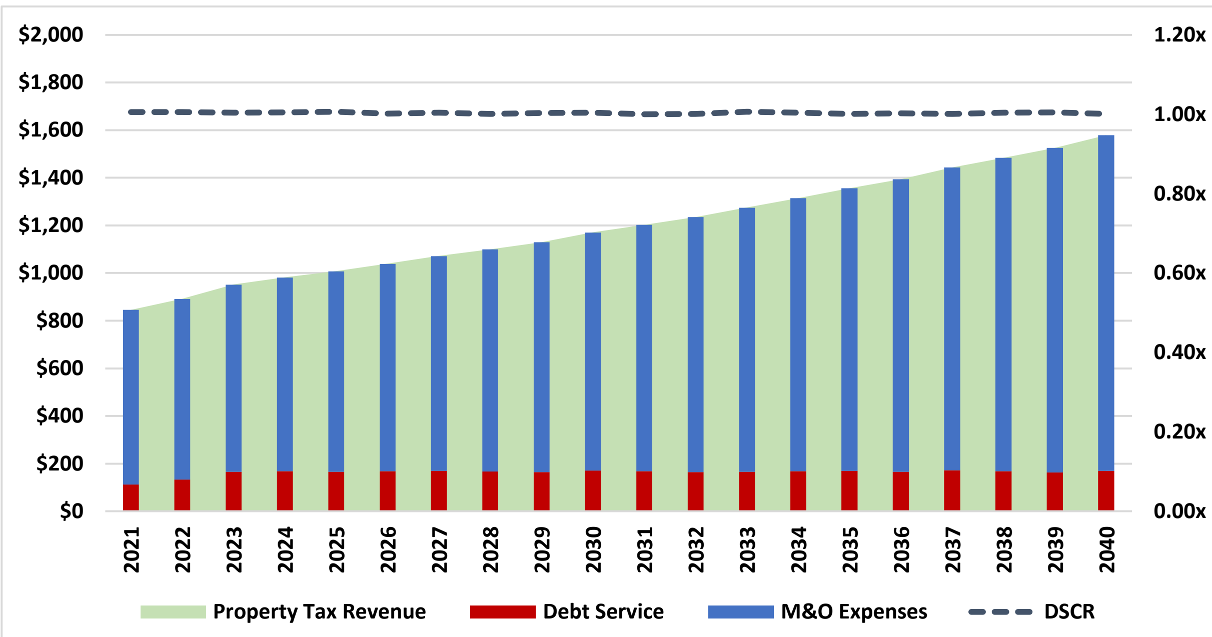
$$DSCR = \frac{(Revenues - Operational\ Expenses)}{(Principal + Interest)}$$

=

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

Figure 6 illustrates the projected distribution of the City's cash flows.

Figure 6
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 the 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 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.

2. *Decrease in Revenue*: Due to the measures implemented in response to the COVID-19 pandemic, the City expects a cash flow shortfall of up to 15% in its approved fiscal year 2020 approved budget. The shortfall is primarily attributed to a higher unemployment rate, which is currently at 22.9% and translates into less disposable income for residents and lower sales tax revenue for the City. To help cover the reduction in cash flow, the City has reduced expenses to the essentials, as well as reduced the number of City employees. The refinancing of existing debt will provide relief through cash flow savings during the initial years effected by the pandemic. Moreover, 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 collection data to budget projected revenue properly. Finally, the City has never defaulted on the payment of its debt obligations.

3. *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 starting in 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. As the most recent financial statements are for fiscal year 2017, the Bank cannot be certain about the City's

financial position or fund balance trends. For this reason, the Bank has been working closely with the City and its external auditor to ensure that the City becomes current with its financial statements. As a result, the City and the external auditor have both made a commitment to complete the fiscal year 2018 audit by the end of September and the fiscal year 2019 audit by the end of the year. 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. At the end of 2019, the unemployment rate in the City was approximately 6.5%.[16] Since the effects of the COVID-19 pandemic, the unemployment rate sharply rose to an estimated 22.9%.[17] The poverty level for the city of Presidio is estimated at 25.3%[18], considerably higher than the 14.9% poverty level estimated for the state.[19] Area wealth levels as measured by per capita income are also very low. Nevertheless, since 2009, the assessed value of taxable property has increased 83.6%, growing at an average annual rate of 7.0%.

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 Bond Order, irrevocably authorizes the levy of ad valorem taxes to pay principal and interest on the Loans.

4. PUBLIC ACCESS TO INFORMATION

4.1. Public Consultation

NADB published the draft certification and financing proposal for a 30-day public comment period that began August 5, 2020 and ended on September 4, 2020, with no comments received.

4.2. Outreach Activities

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

[16] Source: U.S. Bureau of Labor Statistics.
[17] Source: Source: Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/TXPRES7URN.
[18] Source: City of Presidio, http://www.city-data.com/city/Presidio-Texas.html, accessed on August 19, 2020.
[19] Source: U.S. Census Bureau, QuickFacts.

Regarding the impacts of COVID-19 in the community, on August 6th, Marfa Public Radio posted a note mentioning that three Presidio residents had lost their lives due to the virus. The publication also reported that coronavirus infections in the County totaled 44 with a death rate of 6.8%.[20]

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.

5. RECOMMENDATION

Certification Criteria Compliance

The Project falls within the eligibility requirements of the NADB ProRec Program, since the City of Presidio is a public entity that provides services aligned with the NADB mission and that are eligible for NADB financing under its certification criteria. It is also located within the border region as required under the NADB Charter. The 30-day public comment period ended on September 4, 2020, with no comments received. 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

Considering the Project's characteristics and based on the financial and risk analysis, 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 and the NADB ProRec Program. Therefore, NADB proposes providing a market-rate loan for up to US$1.40 million 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.

[20] Source: Marfa Public Radio, https://marfapublicradio.org/blog/three-presidio-residents-lose-their-lives-to-covid-19/.