

WRITTEN TESTIMONY
for
SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE
of the
U. S. HOUSE COMMITTEE ON FINANCIAL SERVICES
addressing the
NORTH AMERICAN DEVELOPMENT BANK (NADBANK)
presented by
JOSE A. ARANDA, JR.
MAYOR
CITY OF EAGLE PASS

MAY 2, 2002

Good morning, Ladies and Gentlemen, and Members of the Subcommittee. My name is Jose A. Aranda, Jr. and I am currently the Mayor of the City of Eagle Pass, Texas. Thank you for the opportunity to comment on the Administration's proposed reforms for the North American Development Bank (NADBank)

In your role as Mayor of Eagle Pass, Texas, please describe your experience with the NADBank and the Border Environmental Cooperation Commission (BECC.)

The City of Eagle Pass, Texas (pop. 22,413) is located in Maverick County (pop. 47,297) in the Middle Rio Grande region approximately 140 miles south of San Antonio and bordering with Piedras Negras, Coahuila, Mexico. Like the rest of the southwest border communities, Maverick County has seen a 30% growth in the last decade. High growth rates often lead to an increase in the labor pool, but when a community lacks the economic resources to accommodate its citizens with jobs, poverty is inevitable. The percent living below the poverty level is 46.43 percent. Furthermore, the county's median household income is \$17,150. Maverick County ranks 250 out of 255 counties.

The following testimony will explain both of the water treatment systems in Maverick County, the conception and growth of our current project, the challenges we have faced with NADBank, and possible solutions to current problems.

Eagle Pass has a water treatment plant servicing 10,500 metered users within the City and Maverick County which has been operating since 1949. The System's source of water derives from the Rio Grande River which is highly polluted. Major problems in the areas of capacity for future growth and compliance with new regulations dictated from the Environmental Protection Agency (EPA) and the Texas Natural Resources and Conservation Commission (TNRCC) have made this an undependable water treatment facility for our rapidly growing areas.

El Indio Water Supply Corporation is a rural water corporation sponsored by the United States Department of Agriculture. It obtains its water from an irrigation system derived from the Rio Grande and servicing those residents outside the City limits of Eagle Pass. Its water treatment plant was originally designed for 1400 connections; however, it currently has over 2000 connections, a waiting list of over 400, an obligation to provide new service to 4,000 newly developed lots, and absolutely no capacity for fire protection. El Indio Water Supply Corporation has experienced times where the water is not drinkable and, apart from the hundreds of residents that are affected, there are three elementary schools, a health clinic, a head start school, two Texas Migrant Council schools, and the Kickapoo Traditional Tribe of Texas Reservation. All of these groups including residential customers are importing water and/or are boiling water for use. El Indio Water Supply Corporation has been cited numerous times by the TNRCC for the improper treatment of its water thereby posing a high health hazard to its clients.

In 1995, the City of Eagle Pass constructed a 6-million gallon per day wastewater treatment plant sufficient to accommodate Eagle Pass growth but not the additional flows that would be generated by the El Indio area and Kickapoo Tribe requirements. Currently, the majority of Maverick County residents outside of the city limits of Eagle Pass have inadequate water systems, inadequate septic tanks, inadequate roads, inadequate housing, and inadequate fire protection.

In 2001, the City of Eagle Pass in conjunction with El Indio Water Supply Corporation agreed that their needs and problems would be resolved by the construction of a 20-million gallon per day regional water plant. The proposed plant will have a capacity to provide adequate and dependable water services to approximately 97% of the population of Maverick County including the Kickapoo Tribe, through the year 2024. It includes the construction of 3 elevated storage tanks, major transmission lines, and construction of the east central wastewater interceptor among many other improvements. The City of Eagle Pass will assume full financial and management responsibility of the project. This proposed regional plant is divided in 2 phases and is scheduled to be completed by 2007. Under this regional plan, it is also proposed that a collection system be installed throughout the Colonias in the El Indio Water Supply Corporation area and that a 2.5 million gallon Wastewater Treatment Plant be constructed. The total cost of the entire project is \$101,440,404.00, of which Eagle Pass' portion will be \$53,482,577 and El Indio Water Supply Corporation's portion will be \$47,957,827. Local Community Development Block Grant funds will be added to this project in the amount of \$1,708,600 for a total of \$103,115,507. (Exhibit A)

After careful studies and because the funding of the project is beyond the City's capabilities, the City of Eagle Pass submitted applications to the Texas Water Development Board, NADBank and the Border Environment Cooperation Commission for possible funding. The Texas Water Development Board has provided \$50 million in financial assistance, the Border Environment Cooperation Commission has provided \$1,280,000 for technical assistance (planning and design), and NADBank has offered \$14 million in transition assistance and \$4 million in hook-up assistance for project development. In spite of this help, the NADBank has fallen short of providing the financial assistance which was originally anticipated. From seeing what some of the other Texas projects have received in funding from the NADBank, the City understood that

it could potentially be eligible for approximately \$25 million of grant financial assistance from the NADBank. In early February 2002, the City was informed that this was not the case and that the City would only receive \$13.9 million in transition assistance and \$4 million for hook-up assistance.

The City has, on several occasions, pled its case to the NADBank as to why their analysis of the impact on City residents is flawed. Attached to my written testimony are copies of letters (Exhibit B) sent to the NADBank, wherein we justify the need for construction grant assistance.

Of importance to note is the following:

- ⇒ The City is in effect proposing to prevent health threats associated with the inability of a water supply corporation to provide potable water to its estimated 10-14,000 residents.
- ⇒ The City has no responsibility to extend this service to residents that do not reside in the City, but has recognized that it has a moral obligation to assist if it can.
- ⇒ This project will also benefit the economic and residential projects proposed by the Kickapoo Tribe.
- ⇒ The NADBank has been unwilling to recognize that providing grant assistance for construction costs today, as opposed to the proposed transition assistance over a 7 year period, would reduce the City's debt burden by almost double the amount of assistance. (For example, if the NADBank provides \$14 million in transition assistance over 7 years, this only pays for \$14 million of debt service. However, if the same \$14 million is provided for construction assistance today, that reduces the amount of debt and interest on that debt which amounts to ~\$24.7 million using current proposed rates.)
- ⇒ It is our understanding that in preparing its analysis of "sustainable rates" the NADBank has developed a "state average" by customer size. Well, we all know that the border region is way below average in income, which is why the State of Texas has classified these areas as economically disadvantaged. So, to compare a state average utility rate with those that can be afforded by border residents is hard to comprehend.

In order to proceed with project certification from the BECC the City felt compelled to accept the offer of the NADBank, but still contends that the financing package offered by the NADBank is **not affordable or sustainable**.

According to NADBank affordability guidelines for the border environment infrastructure fund, if a project requires rate increases of 5% or more, the project is eligible for transition assistance.

Likewise, if a project requires costs that exceed 1.7% of income, the project is eligible for construction assistance, and “if the debt retirement increases exceed 10% per annum, construction assistance may be necessary”.

We suspect it will appear affordable and sustainable but the costs will not appear affordable and sustainable. The costs of the project will increase both our debt and our debt service by **ten times**, which easily exceeds the 10% threshold for construction assistance. We believe we have a cost problem not a rate problem, so construction assistance **is** necessary.

We do not believe that rates are the only measure of whether a project is affordable and/or sustainable. After the transition assistance is exhausted, the draft NADBank rate study indicated that the City’s Water System will have to devote nearly 50% of its annual budget to debt service, which is neither affordable nor sustainable. It must be stressed that NADBank’s transition assistance of \$14 million over 7 years is helpful in establishing rates but does not help in keeping the City of Eagle Pass indebtedness at reasonable levels. The \$39 million debt loan will require approximately 50% of the total revenues for debt service and will hamper the water system in meeting future expansion requirements. Furthermore, \$16 million of principal and the related \$9 million of interest benefits County residents, we do not believe that City residents should pay this \$25 million of the benefit for County residents. Furthermore, it is unfair that our ratepayers are being asked to pay 85% of the City costs in addition to the 33% of the County costs. **The financing places an unfair burden on City ratepayers.**

NADBank should receive additional funding in order to better address the pressing needs along the border. Financial assistance programs should offer grant assistance as well as loan assistance. Grant assistance should focus primarily on construction assistance and secondarily on transition assistance. Loan assistance should offer loans in meaningful amounts on reasonable terms, which may require a retooling of the existing Low Interest Rate Lending Facility (LIRLF). Financial assistance programs should recognize the special needs of regional projects, which can place unfair burdens on the ratepayers of impoverished communities.

In summary, this is a very aggressive project, one that combines two systems into a large regional project that can be effectively managed and operated to the high standards that are required for health and welfare. This is the type of project that is needed to resolve the significant problems that have existed in trying to operate small, independent water and wastewater programs.

NADBank should be providing guidance and financial assistance, instead we have found many constraints and funding formulas that impede the realization of this project. We feel NADBank is not accomplishing in reality what in concept it was intended to accomplish.

In closing, I would like to petition this Committee to assist our border local governments by providing the NADBank with the adequate funds and modifications of its appropriation formulas to assist in addressing our border needs and improve the quality of life for its citizens.

Are you aware of the current reform proposals offered by President Bush and President Vicente Fox.

Yes. I have read the following reform proposals:

❖ - **North American Development Bank and Border Environment Cooperation Commission**

On March 22, 2002, the White House issued a press release on proposed reforms for the two international organizations.

For Immediate Release
Office of the Press Secretary
March 22, 2002

Fact Sheet
Nadbank/Becc Reform

Due to the urgent environmental infrastructure needs in the U.S.-Mexico border region, Presidents Bush and Fox directed a binational working group to hold a series of discussions with states, communities, and other stakeholders in the border region to develop recommendations designed to strengthen the performance of the North American Development Bank (NADBank) and the Border Environment Cooperation Commission (BECC).

Reforms. The Presidents accepted the recommendations and will direct their respective Administrations to work with their legislatures to make the recommendations reality. NADBank and BECC will remain focused on environmental infrastructure priorities and will continue their urgent work on projects as the recommended reforms are implemented. The key recommendations for improvement are as follows:

- **Geographic Scope:** To expand the capacity of both institutions to address important binational environmental needs, the geographic scope for BECC/NADBank operations in Mexico should be expanded from 100 km to 300 km from the border. This expansion would be coupled with a system of financial differentiation that concentrates grants and low interest rate loans for projects in the poorest communities located within the current border region of 100-km, in both countries. The geographic limit in the United States would remain unchanged at 100-km from the border.
- **Financial Instruments:** To provide a greater level of financial flexibility so that its capital can be used more effectively and creatively, NADBank should expand its ability to extend concessional financing by doubling its Low Interest Rate Lending Facility and increasing its capacity to provide grants out of its own resources.
- **Organizational Structure and Process:** To improve functional coordination and operational efficiency between BECC and NADBank, the two boards of directors should be replaced by a single board to oversee both institutions. This new board would have representation from

the federal governments, the border states, and the public. At the same time, a comprehensive business process review should be initiated to identify ways to improve overall project design, certification, and implementation.

- Private Sector: To expand the tools available for financing projects that, among other things, mitigate industrial pollution, improve air quality, and recycle and reuse wastes, a more concerted effort should be made to certify and finance private sector environmental projects.

The United States and Mexico established the BECC and the NADBank in 1993 to help develop and finance environmental infrastructure projects within 100 km of either side of the U.S.-Mexico border. The BECC works with the border states and local communities to develop and certify projects, and the NADBank arranges financing for these projects.

One reform proposal involves extending the jurisdiction of the Border Environmental Cooperation Commission (BECC) from the existing range of 100 km south of the U.S. - Mexico border to 300 km. What is your view of this proposal? In this new active range, how many potential new projects does NADBank stand to finance?

I feel that this proposal is premature and in my point of view the NADBank and our government needs to address our border before we start thinking of expanding boundaries either south or north of the border. Something that needs to be considered is how projects in the expanded area would be funded; if they are to receive grant funding from the BEIF, funded from EPA, then these projects would reduce the available funding to U.S. projects.

A second reform proposal recommends that the two respective governing boards of the NADBank and BECC be merged into one body to oversee both institutions. The merged board would have representation from the federal government, the border states and the public. What is your view on this proposal?

I, like many others, will await the outcome of the independent business process review that will hopefully improve project development and certification. As Mayor, I support the State of Texas' position that state governments be an integral part of this new board; that priorities of the states, as was the regional solution in Maverick County, is not understood or was not considered by the NADBank in its financial proposal to the City of Eagle Pass. The State has requested a more integral role so that the needs of the state be more relevant in the NADBank funding process. We also recommend that the public representative be a border resident who understands our problems because of the potential impact projects have over the lives of many residents in the border region.

Is the current allocation of the NADBank/BECC budgets satisfactory? Are there particular areas geographically or by geographic locations that deserve BECC/NADBank

I am unsure of the level of funding currently being provided to the two institutions; however, we all know that the need in the entire U.S. - Mexico border region is substantial. I support funding

that is used to make projects affordable to border residents, on both sides of the border, as the work on either side ultimately impacts both countries.

Is there any instance wherein the NADBank should be able to fund a project, particularly those of infrastructure, without BECC certification?

Yes. My experience with the Eagle Pass Regional Project is that there appears to be a duplication of work already being done by the States, especially as it relates to environmental, engineering and financial reviews.

For example, the Eagle Pass project received funding from the Clean Water and Drinking Water State Revolving Funds and the Colonia Wastewater Treatment Assistance Program, all funded through the EPA and which required a full NEPA review. (The National Environmental Protection Act, is a federal requirement that requires the preparation of an Environmental Information Document and the issuance of a Finding of No Significant Impact). Therefore, if the States are able to approve/certify projects that meet federal requirements, there might be opportunities there where the NADBank could coordinate its funding with the states without a BECC review, which can add several months time to the process.

Do you have any suggestions for reform of the BECC and the NADBank. If so, what are your suggestions.

I suggest the BECC and NADBank ensure that their work in the region coincides with the funding priorities of the State and works in sync with State's funding timelines. This is why it is so critical that the State be an integral part on the future operation of these two institutions, they have the experience of implementing state and federal infrastructure programs, some of which have been funded by this and past congresses.

	A	B	C	D	F	G	I	K	M
1	CITY OF EAGLE PASS, TEXAS		S02A	S02B	S02C		S02D	S02E	DATED DATE: 07/01/2002
2	PHASE 1A								
3		(a1)			(a2)		(b1)		
4		(Non-Disadvantage)	(Disadvantage)						
5		DWSRF	DWSRF	DWSRF	(formerly DFundII) DWSRF 2002	EDAP	(formerly DFundII) CWSRF 2002	DFundII	TOTAL
6	CONSTRUCTION								
7	Water Treatment Plant - 16 MGD	8,748,381	9,983,619	18,732,000					18,732,000
8	Water Treatment Plant - 3 MGD	-	-			3,568,000.0			3,568,000
9	North Water Transmission Main & Pump Station	709,884	810,116	1,520,000		480,000.0			2,000,000
10	East Water Transmission Main & Pump Station	169,998	194,002	364,000					364,000
11	South Water Transmission Main & Pump Station	385,299	439,701	825,000		675,000.0			1,500,000
12	Deer Run Elevated Storage Tank	609,472	695,528	1,305,000		195,000.0			1,500,000
13	Seco Mines to Deer Run Transmission Main	411,284	469,356	880,640		495,360.0			1,376,000
14	Chula Vista (El Indio Area) Elevated Storage Tank	469,364	535,636	1,005,000		495,000.0			1,500,000
15	Industrial to Callejon Teran Transmission Main	88,268	100,732	189,000		231,000.0			420,000
16	Callejon Teran to Chula Vista Transmission Main	386,700	441,300	828,000		1,012,000.0			1,840,000
17	Vista Hermosa Elevated Storage Tank	350,272	399,728	750,000	750,000				1,500,000
18	East Central Wastewater Interceptor	-	-				6,000,000		6,000,000
19	Total Construction	12,328,922	14,069,718	26,398,640	750,000	7,151,360.0	6,000,000	-	40,300,000
20									
21	BASIC ENGINEERING FEES								
22	Planning	61,645	70,349	131,993	3,750	35,756.8	30,000		201,500
23	Design Engineering	693,502	791,422	1,484,924	42,188	402,264.0	337,500		2,266,875
24	Construction Phase Engineering	231,167	263,807	494,975	14,063	134,088.0	112,500		755,625
25	Sub-Total Basic Engineering Fees	986,314	1,125,577	2,111,891	60,000	572,108.8	480,000	-	3,224,000
26									
27	SPECIAL ENGINEERING FEES								
28	Inspection	122,377	139,656	262,033	7,445	70,984.4	59,556	-	400,018
29	Surveying	15,411	17,587	32,998	938	8,939.2	7,500	-	50,375
30	Testing	18,358	20,950	39,308	1,117	10,648.4	8,934	-	60,007
31	Geotechnical	6,119	6,983	13,102	372	3,549.2	2,978	-	20,001
32	O&M Manual	24,473	27,928	52,401	1,489	14,195.4	11,910	-	79,996
33	Sub-Total Special Engineering Fees	186,738	213,104	399,842	11,360	108,316.6	90,878	-	610,396
34									
35	OTHERS								
36	Land & ROW Acquisition	45,888	52,367	98,256	2,792	26,617.4	22,332	-	149,997
37	Water Rights Acquisition	-	-			2,857,000.0		2,105,000	4,962,000
38	Archeology	31,764	35,817	67,581	1,976	23,941.6	15,131	-	108,629
39	Administration/Miscellaneous	27,190	30,659	57,849	1,691	20,494.0	12,952	-	92,987
40	Sub-Total Others	104,843	118,843	223,686	6,459	2,928,052.9	50,415	2,105,000	5,313,613
41									
42	BOND ISSUANCE COSTS								
43	Financial Advisor (fee schedule + expenses)	47,014	57,206	104,220	67,333		44,384	20,000	235,938
44	Bond Counsel (\$1/1000 bonds + expenses)	21,563	25,262	46,825	20,716		15,005	9,645	92,191
45	Rounding								-
46	Rating Fee	15,000	-	15,000	3,000	-	13,000	10,355	41,355
47	Bond Insurance	173,000	-	173,000	10,761	-	82,410	-	266,171
48	Sub-Total Bond Issuance Costs	256,577	82,468	339,045	101,811	-	154,799	40,000	635,655
49									
50									
51	SUBTOTAL	13,863,392	15,609,711	29,473,103	929,629	10,759,838.4	6,776,092	2,145,000	50,083,663
52									
53	Loan Origination Fee @ 2.25%(does not inc forgiveness)	280,611	320,233	600,844	21,565	-	-	-	622,409
54	Loan Origination Fee @ 1.85%						136,321	-	136,321
55									
56	Contingencies (based on % of Construction costs)	1,610,996	1,835,056	3,446,053	28,806	1,115,161.6	592,587	-	5,182,607
57									
58									
59	TOTAL PROJECT COST	15,755,000	17,765,000	33,520,000	980,000	11,875,000.0	7,505,000	2,145,000	56,025,000

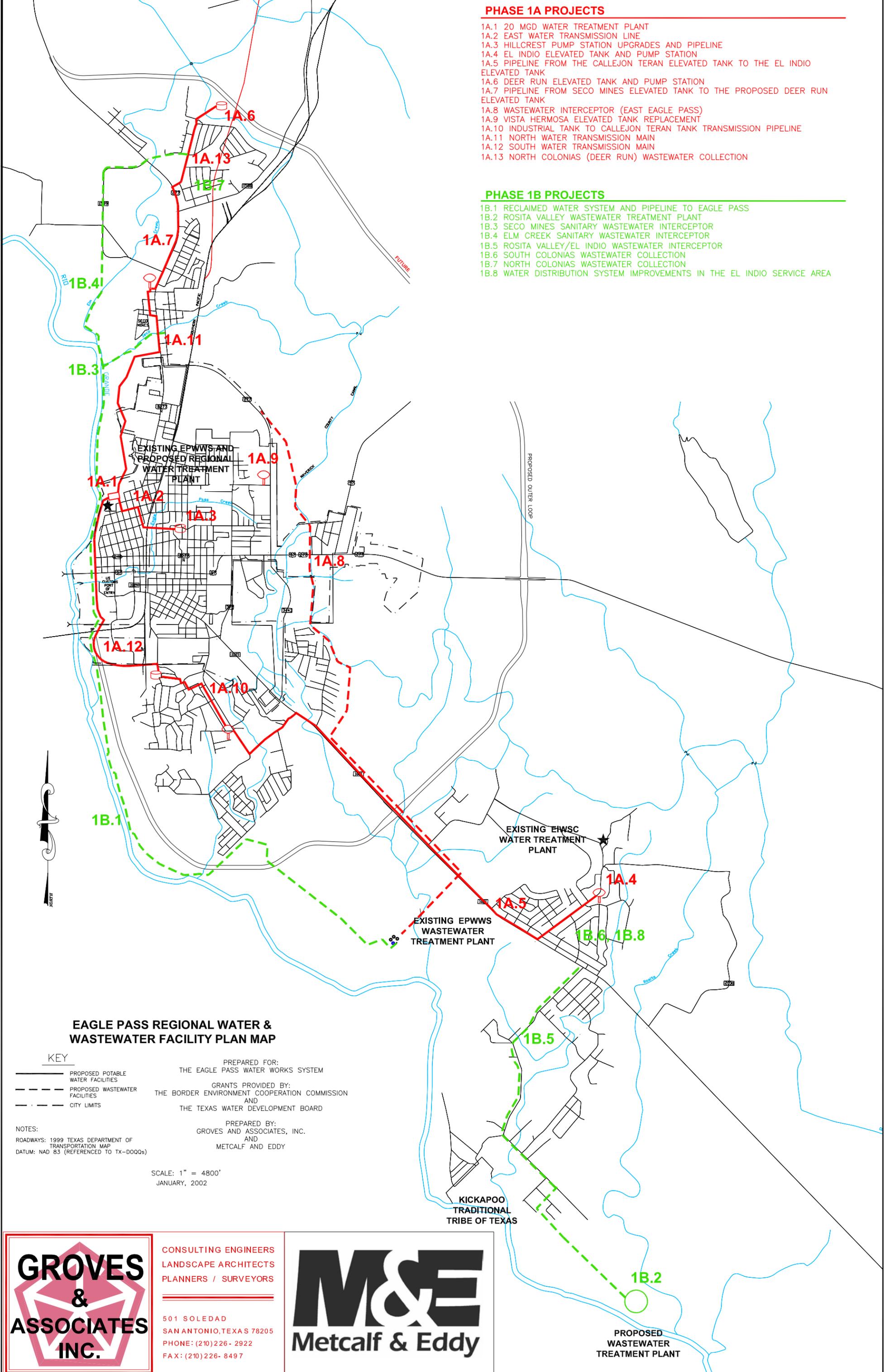
	A	B	F	J	N	R	V
1	CITY OF EAGLE PASS, TEXAS		S03A	S03B	S03C	DATED DATE: 05/01/2003	
2	PHASE 1B		(a3)	(b2)			
3		EDAP	(Formerly DFundII) DWSRF 2002	(Formerly DFundII) CWSRF 2002	(Formerly DFundII) CWSRF 2003	CDBG Funds	TOTAL
4	WATER						
5	El Indio Distribution System	\$ 6,802,127	\$ 2,516,464				\$ 9,318,591
6	Service Taps (to prop. line only)	1,364,775	373,550				1,738,325
7	Service Connections (to house)					1,099,070	1,099,070
8	Sub-Total Water	8,166,902	2,890,014	-	-	1,099,070	12,155,986
9							
10	WASTEWATER						
11	Rosita Valley Wastewater Plant	1,300,000		1,200,000	-		2,500,000
12	El Indio/Rosita Interceptor	1,010,000			195,000		1,205,000
13	El Indio/Rosita Collectors (South)	7,185,000			840,000		8,025,000
14	Deer Run Area Collectors (North)	2,805,250			271,500		3,076,750
15	Elm Creek Interceptor	1,025,000			425,000		1,450,000
16	Seco Mines Interceptor	970,000		1,420,000	-		2,390,000
17	Service Hookups (to prop. line only)	814,800			137,400		952,200
18	Service Connections (to house)	1,493,800				251,900	1,745,700
19	Sub-Total Wastewater	16,603,850	-	2,620,000	1,868,900	251,900	21,344,650
20							
21	RECLAIMED WATER						
22	Eagle Pass	-		1,000,000	2,300,000		3,300,000
23	Sub-Total Reclaimed Water	-	-	1,000,000	2,300,000	-	3,300,000
24							
25	Total Construction	24,770,752	2,890,014	3,620,000	4,168,900	1,350,970	36,800,636
26							
27	BASIC ENGINEERING FEES						
28	Planning	123,854	14,450	18,100	20,845	6,755	184,003
29	Design	1,393,355	162,563	203,625	234,501	75,992	2,070,036
30	Construction	464,452	54,188	67,875	78,167	25,331	690,012
31	Sub-Total Basic Engineering Fees	1,981,660	231,201	289,600	333,512	108,078	2,944,051
32							
33	SPECIAL ENGINEERING FEES						
34	Inspection	245,874	28,686	35,932	41,381	13,410	365,283
35	Surveying	30,963	3,613	4,525	5,211		44,312
36	Testing	36,884	4,303	5,390	6,207		52,785
37	Geotechnical	12,294	1,434	1,797	2,069		17,594
38	O&M Manual	49,170	5,737	7,186	8,275		70,368
39	Sub-Total Special Engineering Fees	375,185	43,773	54,830	63,143	13,410	550,341
40							
41	OTHERS						
42	Land & ROW Acquisition	92,197	10,757	13,474	15,517		131,944
43	El Indio RD Debt Buy-Out	896,550					896,550
44	Archeology	64,321	7,263	9,345	10,442	-	91,371
45	Administration/Miscellaneous	55,059	6,217	8,000	8,938	-	78,213
46	Sub-Total Others	1,108,126	24,237	30,818	34,896	0	1,198,078
47							
48	Sub-Total	28,235,724	3,189,225	3,995,248	4,600,452	1,472,457	41,493,106
49							
50	BOND ISSUANCE COSTS						
51	Financial Advisor		10,725	23,987	106,811		141,524
52	Bond Counsel		4,941	12,145	52,160		69,246
53	Rounding						-
54	Rating		5,000				5,000
55	Bond Insurance		39,640.11	51,005.08	56,989.53		147,634.72
56	Sub-Total Issuance Costs	-	60,306.00	87,137.57	215,961.36	-	363,404.92
57							
58	Loan Origination Fee		79,438.00	84,372.00	94,271.00		258,081.00
59							
60	CONTINGENCIES	3,734,680	281,031	478,242	279,316	236,143	5,009,412
61							
62	Total	31,970,404	3,610,000	4,645,000	5,190,000	1,708,600	47,124,004
63							

PHASE 1A PROJECTS

- 1A.1 20 MGD WATER TREATMENT PLANT
- 1A.2 EAST WATER TRANSMISSION LINE
- 1A.3 HILLCREST PUMP STATION UPGRADES AND PIPELINE
- 1A.4 EL INDIO ELEVATED TANK AND PUMP STATION
- 1A.5 PIPELINE FROM THE CALLEJON TERAN ELEVATED TANK TO THE EL INDIO ELEVATED TANK
- 1A.6 DEER RUN ELEVATED TANK AND PUMP STATION
- 1A.7 PIPELINE FROM SECO MINES ELEVATED TANK TO THE PROPOSED DEER RUN ELEVATED TANK
- 1A.8 WASTEWATER INTERCEPTOR (EAST EAGLE PASS)
- 1A.9 VISTA HERMOSA ELEVATED TANK REPLACEMENT
- 1A.10 INDUSTRIAL TANK TO CALLEJON TERAN TANK TRANSMISSION PIPELINE
- 1A.11 NORTH WATER TRANSMISSION MAIN
- 1A.12 SOUTH WATER TRANSMISSION MAIN
- 1A.13 NORTH COLONIAS (DEER RUN) WASTEWATER COLLECTION

PHASE 1B PROJECTS

- 1B.1 RECLAIMED WATER SYSTEM AND PIPELINE TO EAGLE PASS
- 1B.2 ROSITA VALLEY WASTEWATER TREATMENT PLANT
- 1B.3 SECO MINES SANITARY WASTEWATER INTERCEPTOR
- 1B.4 ELM CREEK SANITARY WASTEWATER INTERCEPTOR
- 1B.5 ROSITA VALLEY/EL INDIO WASTEWATER INTERCEPTOR
- 1B.6 SOUTH COLONIAS WASTEWATER COLLECTION
- 1B.7 NORTH COLONIAS WASTEWATER COLLECTION
- 1B.8 WATER DISTRIBUTION SYSTEM IMPROVEMENTS IN THE EL INDIO SERVICE AREA



EAGLE PASS REGIONAL WATER & WASTEWATER FACILITY PLAN MAP

KEY

- PROPOSED POTABLE WATER FACILITIES
- - - PROPOSED WASTEWATER FACILITIES
- - - CITY LIMITS

PREPARED FOR:
THE EAGLE PASS WATER WORKS SYSTEM

GRANTS PROVIDED BY:
THE BORDER ENVIRONMENT COOPERATION COMMISSION
AND
THE TEXAS WATER DEVELOPMENT BOARD

NOTES:
ROADWAYS: 1999 TEXAS DEPARTMENT OF
TRANSPORTATION MAP
DATUM: NAD 83 (REFERENCED TO TX--DOQQs)

PREPARED BY:
GROVES AND ASSOCIATES, INC.
AND
METCALF AND EDDY

SCALE: 1" = 4800'
JANUARY, 2002



CONSULTING ENGINEERS
LANDSCAPE ARCHITECTS
PLANNERS / SURVEYORS

501 SOLEDAD
SAN ANTONIO, TEXAS 78205
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PROPOSED
WASTEWATER
TREATMENT PLANT

**Eagle Pass Regional Water & Wastewater Facility Plan
Funding Sources as of 1/15/2002**

		Eagle Pass		El Indio	
		<u>Loan</u>	<u>Grant</u>	<u>Loan</u>	<u>Grant</u>
Phase 1A	DWSRF	27,625,486		5,894,514	
	DFUND	8,322,892		2,307,108	
	EDAP		3,272,852		8,602,148
<hr/>					
Phase 1B	CDBG	50,465		1,624,638	
	DFUND	6,825,093		6,619,907	
	EDAP		7,435,956		24,534,449
<hr/>					
Sub Total		42,823,936	10,708,808	16,446,167	33,136,597
<hr/>					
Sub Total		53,532,744		49,582,763	
<hr/>					
Grand Total		103,115,507			



January 25, 2002

Mr. Jorge C. Garcés
Deputy Managing Director
North American Development Bank
203 South St. Mary's, Suite 300
San Antonio, TX 78205

Dear Mr. Garcés:

Thank you for your offer of financial assistance for Phase 1A and Phase 1B of the \$101,440,404 regional water and wastewater facilities plan for the City of Eagle Pass waterworks system. As a regional provider, the City's service area will increase to a total population of 53,172 in 2005, serving residents of the County, including the El Indio Water Supply Corporation, which encompasses the Kickapoo Indian Nation.

Due to the regional nature of the project and the serious health and safety problems the project will solve, it was necessary to seek funding from a number of sources, notably the Texas Water Development Board (TWDB) and the North American Development Bank (NADBank).

To date, we have secured the following financial commitments from the TWDB:

<u>Amount</u>	<u>Nature of Funding</u>	<u>Share of Project</u>
\$43,845,404	grant	43.22%
\$ 6,215,000	loan forgiveness	6.13%
\$11,545,000	no-interest loan	11.38%
\$15,760,000	low-interest loan	15.54%
\$24,075,000	high-interest loan	23.73%

Although much of this assistance is either grant, loan forgiveness, no-interest loan, or low-interest loan, the \$24 million loan from the Texas Water Development Fund II (DFund II) has an above-market interest rate; this is the portion of the financing package where we most require the assistance of the NADBank.

As you know, we have been discussing the project with your staff and their predecessors for several years. Initially, NADBank staff had advised us on a preliminary basis that NADBank would likely offer construction assistance of at least \$25 million and transition assistance in an undetermined amount. Obviously, the \$25 million of assistance would have eliminated the \$24 million high-interest loan.

Now, NADBank staff advises us that NADBank will offer NO construction assistance and \$14 million of transition assistance. Also, NADBank staff advises us that \$4 million of hookup assistance is available. (The hookup assistance covers costs that are above and beyond the \$101 million cost of the project.)

The NADBank assistance is sized to ensure that customers pay rates that are affordable and sustainable. We await the results of the rate study, and we suspect that the *rates* will appear affordable and sustainable, according to the guidelines developed by NADBank and implemented by the rate consultant.

Even if the *rates* appear affordable and sustainable, the *package* is NOT affordable and sustainable. We believe that the financing places an undue burden on City ratepayers, as opposed to County ratepayers. In addition, we remain concerned that the rate study does not reflect all known costs of the system; namely project costs for Phase 3 of \$27.2 million are not included in the rate study.

WE RESPECTFULLY REQUEST AN ADDITIONAL \$11 MILLION OF ASSISTANCE.

The financing package is NOT affordable and sustainable.

For the fiscal year ended September 30, 2000, the City of Eagle Pass had cash expenses of \$3,032,687. The City had \$4,340,000 of bonds and paid \$578,016 of annual debt service (or 19% of expenses.)

As planned, for the fiscal year ended September 30, 2007, the City will have cash expenses of \$5,520,522. The City will have \$45,485,000 of bonds and pay \$5,387,451 of annual debt service (or 98% of expenses.)

In other words, this package will DOUBLE our expenses. At the same time, the package will increase both our debt and our debt service by TEN TIMES, so that debt service will EQUAL operating expenses. Obviously, we do not believe that this ratio of debt service to cash expenses is affordable or sustainable.

The financing places an undue burden on City ratepayers.

Approximately \$16.5 million of loan proceeds benefits County residents, rather than City residents. Also, in addition to the principal, the \$16.5 million loan will cost the City another \$9.0 million of interest.

The City would likely not have undertaken a project of this magnitude without the support of NADBank. We do not believe that City residents should pay this \$25.5 million for the benefit of County residents.

There is a \$25.0 million shortfall in the package that is only partially addressed by the \$14 million offer. As described above, the cost to the City ratepayers for the benefit of the County ratepayers is \$25.5 million. In preliminary conversations with your staff and their predecessors, we expected an offer of \$25.0 million. Looking at the TWDB assistance, the difficult portion of the package is the high-rate loan of \$24.0 million.

If the package is not deemed affordable and sustainable, the City may need to finance the City portion only. This would delay the projects, because it would require another approval from TWDB and other agencies. More important, the El Indio portion would not be funded, and El Indio lacks the capacity to fund it alone.

The rate study does not reflect all known costs of the system.

The NADBank rate study does not consider funding for Phase 3 of the project, which will cost another \$27.2 million in 2010. NADBank's offer of assistance does not leave us any flexibility to fund this phase.

Also, the NADBank rate study does not consider non-cash items, such as amortization and depreciation. We understand that the "cash-needs approach" recovers the capital cost by including principal payments, which is appropriate for the assets to be funded. However, for the existing assets currently in operation, the non-cash items of almost \$1 million are almost TWO TIMES the principal payments for existing debt.

In addition, we are concerned that the TWDB, as our lender, may require more rate increases in the future to avoid depleting our fund balance and to ensure that our assets are adequately funded.

Mr. Jorge C. Garcés
Page 3

The financing package should include construction assistance, as well as transition assistance.

If at all possible, we would like to receive construction assistance, as well as transition assistance. As you know, construction assistance reduces debt, whereas transition assistance reduces debt service.

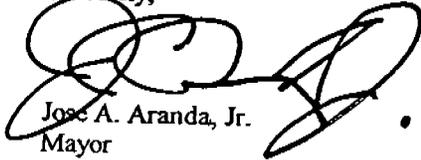
If we assume a \$50 million bond, amortized at a 5.5% interest rate on a level amortization over 25 years, \$20 million of construction assistance will eliminate \$20 million of principal and \$17 million of interest, whereas \$20 million of transition assistance will eliminate only \$20 million of principal and interest.

Since the construction costs and some of the debt service costs will be incurred in the first seven years, if we receive construction assistance, rather than transition assistance, the package will be more efficient. Also, construction assistance, rather than transition assistance, would resolve a potential problem arising from the federal tax law, which we are discussing with your staff and exploring with our bond counsel.

Thank you for your consideration. We are mindful that the City and the NADBank must resolve this issue. We hope to resolve this issue prior to February 1, when we will be holding the public hearing necessary to prepare for certification at the March meeting of the Border Environment Cooperation Commission.

Jorge, we appreciate your continuing interest in the City of Eagle Pass. If we can assist you in any way, please feel free to call us at (830) 773-9170.

Sincerely,



Jose A. Aranda, Jr.
Mayor

cc: The Honorable Senator Phil Gramm
The Honorable Senator Kay Bailey Hutchison
The Honorable Representative Henry Bonilla
Mr. Gregg Cooke, Regional Administrator, USEPA
The Honorable Governor Rick Perry
The Honorable Senator Frank Madla
The Honorable Representative Pete G. Gallego
Mr. Craig D. Pedersen, Executive Administrator, TWDB



February 11, 2002

Mr. Jorge C. Garcés
Deputy Managing Director
North American Development Bank
203 South St. Mary's, Suite 300
San Antonio, Texas 78205

Dear Mr. Garcés:

Tuesday, we met with your staff to discuss my letter of January 25, concerning the offer of financial assistance from the North American Development Bank (NADBank) to the City of Eagle Pass.

As you recall, the project consists of Phase IA and Phase IB of the \$101,440,404 regional water and wastewater facilities plan for the City of Eagle Pass Water Works System. NADBank has offered to provide \$14 million of "transition" assistance, to assist the City with its debt service payments, as well as another \$4 million of "hookup" assistance, to assist our customers with the cost of hooking up to our system.

The financing package is NOT affordable and sustainable.

According to NADBank affordability guidelines for the Border Environment Infrastructure Fund (BEIF), if a project requires rate increases of 5% or more, the project is eligible for transition assistance. Likewise, if a project requires costs that exceed 1.7% of income, the project is eligible for construction assistance, and "if the debt retirement increases exceed 10% per annum, construction assistance may be necessary."

We await the results of the rate study, and we suspect that the rates will appear affordable and sustainable, but the costs will not appear affordable and sustainable. The costs of the project will increase both our debt and our debt service by TEN TIMES, which easily exceeds the 10% threshold for construction assistance. We believe that we have a cost problem, not a rate problem, so construction assistance is necessary.

Mr. Jorge C. Garcés
Page 2

We do not believe that rates are the only measure of whether a project is affordable and/or sustainable. After the transition assistance is exhausted, the draft NADBank rate study indicated that the city will have to devote nearly 50% of its annual budget to debt service, which is neither affordable nor sustainable.

The financing places an unfair burden on City ratepayers.

As you know, \$16 million of principal and the related \$9 million of interest benefits County residents. We do not believe that City residents should pay this \$25 million of the benefit of County residents. There is a funding gap of \$11 million, which is this \$25 million cost less the \$14 million assistance.

If your letter of February 1, you indicated that the project produces a ratio of 57% grant and 43% loan. Actually, the City portion of the project produces a ratio of only 20% grant and 80% loan, whereas the County portion of the project produces a ratio of 67% grant and 33% loan. We do not believe that it is fair that our ratepayers are being asked to pay 80% of the City costs in addition to 33% of the County costs.

In my letter of January 25, we respectfully requested an additional \$11 million of assistance, preferably construction assistance, rather than transition assistance. Because construction assistance reduces debt, every \$1.00 of construction assistance produces \$1.77 of reduction in our principal and interest payments. (By contrast, every \$1.00 of transition assistance produces only \$1.00 of reduction in our payments.)

We understand that NADBank prefers to offer transition assistance, rather than construction assistance, because other communities, both in Mexico and the United States, have been reluctant to raise their rates. We hope that you will recognize that the City has demonstrated its ability and willingness to raise rates. The system, run by a separate board, has a good relationship with the Texas Water Development Board; and the TWDB has an audit staff, which monitors its borrowers on a regular basis, to ensure compliance.

When we met with your staff, we were told that we could apply the \$4 million of hookup assistance as construction assistance. This \$4 million of assistance helps us to close the funding gap of \$11 million, since we believe that we can obtain hookup assistance elsewhere. A funding gap of \$7 million remains.

We respectfully request an additional \$7 million of construction assistance.

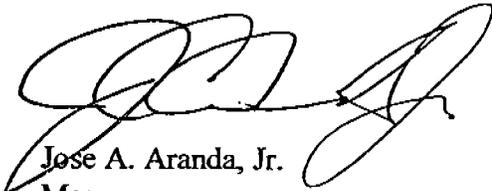
Jorge C. Garcés
Page 3

Thank you for your consideration. We are mindful that the City and the NADBank must resolve this issue. We hope to resolve this issue prior to the meeting of the Border Environment Cooperation Commission.

Jorge, we appreciate your continuing interest in the City of Eagle Pass. If we can assist you in any way, please feel free to call us at (830)773-1111.

Sincerely,

CITY OF EAGLE PASS



Jose A. Aranda, Jr.
Mayor

xc: The Honorable Senator Phil Gramm
The Honorable Senator Kay Bailey Hutchison
The Honorable Congressman Henry Bonilla
Mr. Gregg Cooke, Regional Administrator, USEPA
Mr. Fernando R. Macias, Border Environment Cooperation Commission
The Honorable Governor Rick Perry
The Honorable Frank Madla
The Honorable Representative Pete G. Gallego
Mr. Craig D. Pedersen, Executive Administrator, TWDB

Free
NAD BANK

REFERENCE COPY



March 26, 2002

Mr. Fernando R. Macias, General Manager
Border Environment Cooperation Commission
Blvd. Tomas Fernandez, No. 8069
Fracc. Los Parques
Cd. Juarez, Chihuahua, C.P. 32470

Dear Mr. Macias:

Thank you for your offer of financial assistance for Phase IA and Phase 1B of the \$101,440,404 Regional Water and Wastewater Facilities Plan for the City of Eagle Pass Waterworks System.

The North American Development Bank (NADBank) and the Texas Water Development Board (TWDB) encouraged us to pursue a regional project, which would benefit County residents, not just City residents. We will require substantial assistance from these agencies in order to complete such an ambitious project.

The TWDB has offered \$101,440,404 in grants, loan forgiveness, no-interest loans, and low-interest loans. NADBank has offered only \$4 million of construction assistance and \$14 million of transition assistance.

Sadly, despite too many discussions about constraints and models and precedents and regulations, there have been no discussions of the "big picture" issues concerning who should pay for projects of this type.

We remain concerned that the financing package is not affordable and sustainable. Within seven years, this package will DOUBLE our expenses. At the same time, the package will increase both our debt and our debt service by TEN TIMES, so that debt service will EQUAL operating expenses.

We believe that the package places an unfair burden on City ratepayers, as opposed to County ratepayers. Approximately \$16.5 million of loan proceeds benefits County residents, rather than City residents. Also, in addition to the principal, the \$16.5 million loan will cost the City another \$9.0 million of interest.

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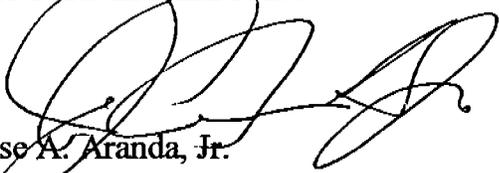
We believe that the package limits the financial flexibility of the system and precludes the system from accessing the markets through any source but the NADBank, the TWDB and other lenders of last resort. Also, we face costs of \$27.3 million to complete Phase 3 of the project, which are still not funded.

We are gravely concerned about the cost of the project to the City, in light of the current financing package, and we will continue to seek additional assistance, so that we can complete this essential project.

Thank you for your attention. If you should have any questions in regard to this matter, please do not hesitate to contact us at (830)773-1111.

Sincerely,

CITY OF EAGLE PASS



Jose A. Aranda, Jr.
Mayor

xc: Mr. Jorge C. Garcés, Deputy Managing Director
North American Development Bank