CERTIFICATION AND FINANCING PROPOSAL

REFINANCING OF EXISTING DEBT FOR MAVERICK COUNTY, TEXAS

UNDER THE NADB COVID-19 RECOVERY PROGRAM

Revised: August 31, 2020

BOARD APPROVAL TIMELINE

REFINANCING OF EXISTING DEBT
FOR MAVERICK COUNTY, TEXAS

UNDER THE NADB COVID-19 RECOVERY PROGRAM

Milestones	Date
Public comment period begins (30 days)	30/Jul/20
Public comment period ends	29/Aug/20
Board submittal for initial review	8/Aug/20
Initial Board review ends (21 days)	No later than: 29/Aug/20
Initial NADB response period (10 days)	No later than: 08/Sep/20
Additional Board review (14 days)*	No later than: 22/Sep/20
Additional NADB response period (7 days)*	No later than: 29/Sep/20
Board voting period (14 days)*	No later than: 13/Oct/20

* Date subject to change if prior deadline is met at an earlier date.

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EXECUTIVE SUMMARY

REFINANCING OF EXISTING DEBT FOR MAVERICK COUNTY, TEXAS

UNDER THE NADB COVID-19 RECOVERY PROGRAM

Project: The project consists of refinancing the existing debt of Maverick County, 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$18 million in existing debt for Maverick County in order to provide more efficient debt service cash flows for the maintenance and operation of existing infrastructure and help the County continue to provide public services for the benefit of its residents. Such services include water and wastewater,[2] road maintenance, health services, public safety, landfill operations and among others, which accounted for approximately 51% of the County's total budgeted expenses in 2019.

Expected Outcomes: Refinancing the existing debt will alleviate the liquidity position of Maverick County. The existing debt has a weighted average interest rate of 7% and will cost the County approximately US$3.3 million in debt service payments over the next three years. Refinancing is expected to save the County roughly US$230,000 annually in debt service obligations during that period, providing cash flows for the maintenance and operation of existing infrastructure, as well as for the provision of public services. These savings will benefit county residents, as they will give Maverick County more financial flexibility, lessening the need to raise fees or rates in order to continue providing public services in the community.

Population Benefitted: 58,722 residents of Maverick County, Texas.[3]

[1] During its virtual meeting in May 2020, the NADB Board of Directors approved the COVID-19 Recovery Program, which is intended to support border communities experiencing economic, health and social impacts caused by the COVID-19 pandemic, while at the same time promoting continued environmental improvement in the U.S.-Mexico border region. NADB refinancing supports private and public entities, including municipalities and utilities that need to refinance existing debt obligations related to eligible projects. NADB financing can alleviate the liquidity position of these public sponsors and help them continue to provide public services for the benefit of the people in the border region.
[2] The County provides these essentials services (water and wastewater) to unincorporated areas within the County.
[3] Source: U.S. Census Bureau, 2019.

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

Borrower: Maverick County, Texas.

Project Cost: US$ 18.0 million.

NADB Loan: US$ 18.0 million, through the COVID-19 Recovery Program.

Uses and Sources of Funds:
(US$ million)

Uses	Amount	%
Refinancing of existing debt	$ 18.0	100.0
TOTAL	**$ 18.0**	**100.0**
Sources	**Amount**	**%**
NADB Loan	$ 18.0	100.0
TOTAL	**$ 18.0**	**100.0**

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

Repayment Period: Up to one hundred eighty (180) months.

Repayment Source: County revenue from an annual ad valorem tax levied against all taxable property within the county at a rate sufficient, within the limit prescribed by law, to cover the debt service payments.

Interest Payments: Semiannually.

Principal Payments: Annually.

Debt Service Coverage Ratio (DSCR): The Borrower shall maintain a minimum DSCR of 1.00x.

Project Status: The Maverick County Commissioners Court will authorize Limited Tax Refunding Bonds at its public meeting on August 31, 2020.

PROPUESTA DE CERTIFICACIÓN Y FINANCIAMIENTO

REFINANCING OF EXISTING DEBT FOR MAVERICK COUNTY, TEXAS

UNDER THE NADB COVID-19 RECOVERY PROGRAM

1. PROJECT OBJECTIVE AND EXPECTED OUTCOMES

The project consists of refinancing existing debt of Maverick County, Texas (the "Project"), which will be implemented under the NADB COVID-19 Recovery Program.[4] The purpose of the Project is to refinance US$18 million in existing debt for Maverick County in order to provide more efficient debt service cash flows for the maintenance and operation of existing infrastructure and help the County continue to provide public services for the benefit of its residents. Refinancing is expected to reduce current debt service by roughly US$230,000 annually during the first three years of the NADB loan, providing cash flows for the maintenance and operation of existing infrastructure, as well as for the provision of public services. These savings will benefit county residents, as they will also give Maverick County more financial flexibility, lessening the need for fee or rate adjustments to support public services in the community.

2. ELIGIBILITY

2.1. Project Type

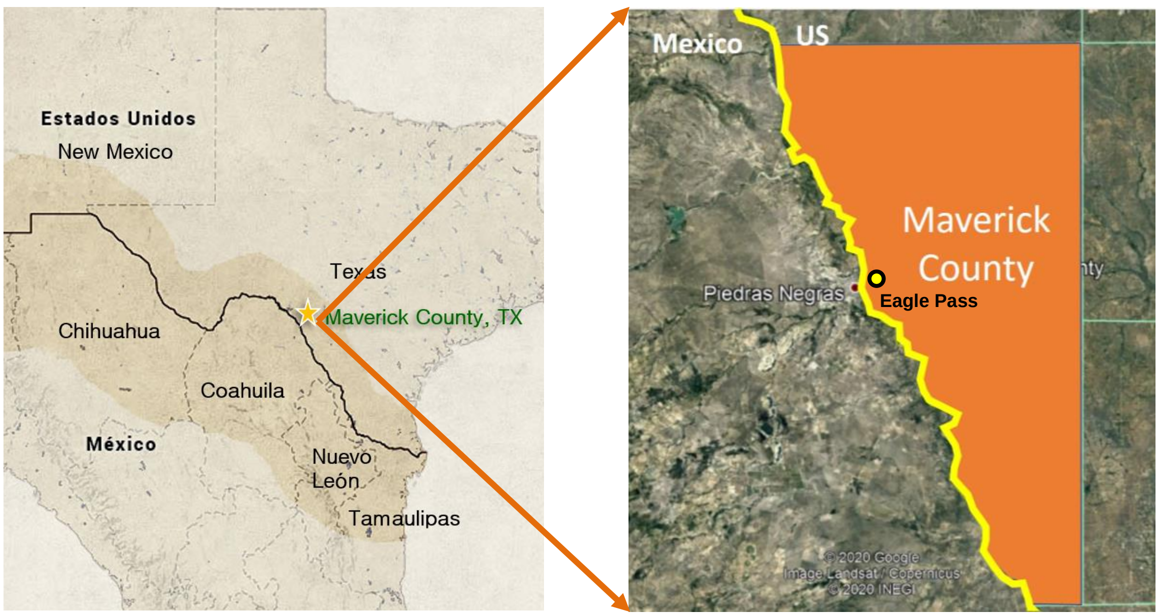
The Project complies with the requirements of the NADB COVID-19 Recovery Program, as the sponsor is a public entity whose mandate is aligned with the NADB mission, as it provides public services to border residents and maintains and operates public infrastructure. The services provided by the County include water and wastewater,[5] road maintenance, health services, public safety and landfill operations, among others, which accounted for approximately 51% of the County's total budgeted expenses in 2019. The Project will help the County continue to operate infrastructure that falls within the eligible categories of the NADB mandate.

[4] During its virtual meeting in May 2020, the NADB Board of Directors approved the COVID-19 Recovery Program, which is intended to support border communities experiencing the economic, health and social impacts caused by the COVID-19 pandemic, while at the same time promoting continued environmental improvement in the U.S.-Mexico border region. NADB refinancing supports private and public entities, including municipalities and utilities that need to refinance existing debt obligations related to eligible projects. NADB financing can alleviate the liquidity position of these public sponsors and help them continue to provide public services for the benefit of the people in the border region.
[5] The County provides these essentials services (water and wastewater) to unincorporated areas within the County.

2.2. Project Location

Maverick County is located on the U.S.-Mexico border in the South Texas Plains region of the state, between Kinney County to the north and Webb County to the south. The city of Eagle Pass is the county seat and sits directly across the Rio Grande from Piedras Negras, Coahuila. The geographical coordinates of the town center are approximately 28°42'32.81"N and 100°29'58.29"W. Figure 1 shows the location of the county.

Figure 1
COUNTY LOCATION MAP



2.3. Project Sponsor and Legal Authority

The public-sector project sponsor is Maverick County, Texas (the “Sponsor” or the “County”). The County has the legal authority to operate and maintain public goods, including urban infrastructure, buildings, roads and related infrastructure.

3. CERTIFICATION CRITERIA

3.1. Technical Criteria

3.1.1. General Community Profile

According to the U.S. Census Bureau, in 2019, the population of Maverick County was estimated at 58,722 residents. In 2017, the main economic activities in the county were healthcare and social assistance (15.4%), retail trade (12%) and educational services (11.7%).[6]

Maverick County is an economically distressed community, reporting a poverty rate of 26.8% in 2019, which is considerably higher than the 14.9% poverty level estimated for the state of Texas. The median household income (MHI) in 2018 was estimated at US$38,035, which is considerably less than the US$59,570 estimated for the state.[7]

As previously mentioned, the refinancing will be implemented under the NADB COVID-19 Recovery Program, which Program was approved by the NADB Board of Directors and is intended to support border communities experiencing the economic, health and social impacts of the COVID-19 pandemic, while at the same time promoting continued environmental improvement in the U.S.-Mexico border region. NADB refinancing supports private and public entities, including municipalities and utilities, that need to refinance existing debt obligations related to eligible projects. NADB financing can alleviate the liquidity position of these public sponsors and help them continue to provide public services for the benefit of the people in the border region.

The refinancing of the existing debt under this Program will provide savings which will benefit county residents, as such savings will increase the financial capacity of the County to operate and maintain existing infrastructure and continue providing crucial public services, without having to place an additional property tax burden on its residents.

COVID 19 Current Situation

Nationwide in the U.S.

Since its outbreak in March 2020, the virus has been spreading exponentially to all countries and all U.S. states. According to the U.S. Center for Disease Control and Prevention (CDC), as of July 24, 2020, the United States had reported 4,080,745 COVID-19 infections with a total death toll of 144,296. The state of Texas has the 4th highest number of cases in the U.S.—just below New York, California and Florida—with 375,377 total infections and 4,717 deaths as of that same date.[8]

The negative impact of the COVID-19 pandemic on the global economy is far beyond any economic crisis experienced in nearly a century. Estimates indicate the virus could trim global economic growth by 3.0% to 6.0% in 2020, with a partial recovery in 2021. The economic fallout

[6] Source: U.S. Census Bureau, 2019.
[7] Source: U.S. Census Bureau.
[8] Source: USAFacts (https://usafacts.org/visualizations/coronavirus-covid-19-spread-map/).

from the pandemic has raised the risk of a global economic recession with levels of unemployment not experienced since the Great Depression in 1929. Social costs in terms of lives lost will permanently affect global economic growth in addition to the cost of rising poverty levels, upended lives, derailed careers and increased social unrest. Global trade could also fall by 13% to 32%, depending on the depth and extent of the global economic downturn.[9] Although the full impact will not be known until the effects of the pandemic peak, the ongoing outbreak is putting severe pressure on the finances and economic output of public entities in the short term, while governments at all levels also need to respond to the public health emergency.

As reported by the U.S. Bureau of Economic Analysis on April 29, 2020, based on first quarter GDP data, the U.S. economy had contracted by 4.8% on an annual basis. A decline in economic activity of 30% or more was recorded in the motor vehicles and parts, recreation, food services, and accommodation and transportation sectors, reflecting the effect of the restrictions adopted across the country. In contrast, food and beverage consumption increased 25% as people changed their eating habits, switching from dining at restaurants and other commercial food service establishments to preparing and eating food at home.[10]

In May 2020, the U.S. Department of Labor reported that the non-farm unemployment rate had increased by 20 million in April, raising the total number of unemployed Americans to 23 million, and representing an unemployment rate of 14% of the civilian labor force of 156 million. The unemployment rate does not include approximately 10 million workers who are involuntarily working part time, nor another 9 million individuals who are seeking employment. The largest increase in unemployed individuals was in the leisure and hospitality sector, reflecting wide-spread travel restrictions and social distancing policies to reduce the spread of COVID-19, which affected all labor groups.[11]

The economic impacts associated with COVID-19 have made many public borrowers (governments) and private borrowers (corporations and households) vulnerable to potential disruptions in revenue flows and access to new financing, making it much more difficult for them to repay their debts without government intervention. COVID-19 has hit the revenue of corporations in a wide range of industries, from factories ceasing production to the closing of brick-and-mortar retail stores and restaurants. Commodity prices have also plunged. According to the Bloomberg Commodity Index, the price of a basket of oil, metals and food has dropped 27% since the start of the year and is now at its lowest level since 1986. As a result, many U.S. households are facing a sudden loss of employment and income and may not have the resources available to pay their taxes and other debts. These defaults will result in a decline in bank assets, making it difficult for banks to extend new loans during the crisis and may even, in a worst-case scenario, create insolvency problems for banks. Meanwhile, many governments are dramatically increasing spending to combat the pandemic, while likely facing sharp reductions in revenue, putting pressure on public finances and weakening their financial position.[12]

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[9] Source: Congressional Research Service, *Global Economic Effects of COVID-19,* updated July 24,2020 (https://fas.org/sgp/crs/row/R46270.pdf).
[10] Source: Ibid.
[11] Source: Ibid.
[12] Source: Ibid.

The Coronavirus Aid, Relief and Economic Security (CARES) Act was passed by the U.S. Congress and signed into law on March 27, 2020, delivering a US$2-trillion economic relief package aimed at protecting public health and mitigating the economic impacts of COVID-19 on different sectors of the American people. The CARES Act provides fast and direct economic assistance to workers and their families, to small businesses and large companies to preserve jobs, and to state, local and tribal governments.[13]

Through the Coronavirus Relief Fund created under the CARES Act, US$5.06 billion in funding is available to local governments in Texas to help reimburse direct expenses incurred due to the COVID-19 pandemic. The U.S. Department of the Treasury has directly allocated more than US$3.2 billion to Texas cities and counties with a population greater than 500,000. The remaining US$1.85 billion will be available for other counties and cities throughout the state. The counties and cities without access to those direct allocations are eligible to apply for a US$55.00 per capita allocation from the US$1.85 billion.[14]

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

According to the National Association of Counties (NACo), nationally, counties anticipate a US$202-billion impact to budgets through fiscal year 2021, along with US$30 billion in additional expenditures and US$114 billion in lost county-generated revenue.[15] NACo also expects an additional US$58-billion cut in state funding for counties, as states collectively anticipate a US$555-billion budget shortfall. This decrease in local government spending may lead to a US$344-billion decrease in economic output and 4.9 million less jobs.

Major county revenue streams that support critical local services are at risk, yet most counties have limited authority to raise additional funds to make up this deficit. Moreover, counties are seeing an unprecedented rise in expenditures related to the COVID-19 pandemic, investing billions of dollars to save lives and keep American communities safe and healthy. Government charges and fees, sales taxes and gross receipts, income taxes and licensing fees—which on average comprise 42% of all county-generated revenue—are most at risk because of the COVID-19 pandemic. At the same time, county expenditures are increasing dramatically as additional funding is being invested in health and hospital systems, justice and public safety services, human services, technology infrastructure and education.[16]

On average, counties generate 71% of revenue through local taxes, administrative charges and utility revenue. The effects of the COVID-19 crisis are causing delays and reductions in property

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[13] Source: U.S. Department of the Treasury (https://home.treasury.gov/policy-issues/cares).
[14] Source: Office of Texas Governor, Economic Development (https://gov.texas.gov/business/page/coronavirus#:~:text=Under%20the%20CARES%20Act%2C%20%245.06,a%20population%20greater%20than%20500%2C000).
[15] Source: National Association of Counties (https://www.naco.org/covid19).
[16] Source: NACo, Analysis of the Fiscal Impact of COVID-19 on Counties, May 2020 (https://www.naco.org/sites/default/files/documents/NACo_COVID-19_Fiscal_Impact_Analysis_1.pdf).

tax collection—the primary source of revenue for counties in most states and a fairly stable source of revenue. Many counties are extending the deadline for residents to pay property taxes or waiving late fees, thereby delaying their primary annual income flow and causing anxiety as expenditures rise. Although property tax revenue may not decline as much as other revenue sources, counties will still need to rely on financial reserves until the revenue can be collected. Furthermore, specific county functions that are supported by user fees, state-revenue sharing and other tax sources remain susceptible to budget cuts. As a result, it is estimated that 71% of counties have cut or delayed capital investments, 68% are cutting or delaying services, public safety and community development support and 25% have reduced their workforce through furloughs, layoffs and requests for early retirement.

Maverick County

From July 25, 2020 to August 7, 2020, the spread of COVID-19 has intensified, as reported infections jumped from 1,440 to 2,409, and the total death toll climbed from 26 to 50, representing an increase of 67% and 92%, respectively. In the last two weeks the pandemic has grown out of control in the county.[17]

Since March 2020, the Maverick County Commissioners Court has issued 10 declarations related to the COVID-19 pandemic. These declarations have limited the size of gatherings; allowed only essential businesses to operate; postponed district, community, municipal and justice of the peace court cases; instituted a curfew; and limited attendance at public schools. These measures have affected the revenue of Maverick County.[18]

As explained above, the negative economic effects of the COVID-19 pandemic have placed additional stress on the community, primarily because of increased unemployment. At the end of 2019, the unemployment rate in the county was approximately 7.5%.[19] Since the COVID-19 outbreak, the unemployment rate has risen sharply to an estimated 21.4% as of May 2020.[20] The higher unemployment rate translates into less disposable income for residents and lower sales tax revenue for the County.

To help cover the reduction in cash flows, the County has reduced expenses to the essentials, avoided increasing taxes and fees to prevent further impacts to the community, and continues to look for ways to cope with the financial situation, while still supporting its citizens amid the COVID-19 contingency. One of the cost-saving measures proposed by the County is to refinance its existing debt, which would reduce its debt service obligations.

3.1.2. Project Scope

The Project consists of refinancing US$18 million in existing debt for Maverick County, Texas. The existing debt has a weighted average interest rate of 7% and will cost the County approximately US$3.3 million in debt service payments over the next three years. Refinancing the debt is

[17] Source: Maverick County (https://co.maverick.tx.us/).
[18] Source: Ibid.
[19] Source: U.S. Bureau of Labor Statistics.
[20] Source: Economic Research, Federal Reserve Bank of St. Louis.

expected to save the County roughly US$230,000 in debt service obligations during that same period, providing cash flows for maintenance and operation of existing infrastructure, as well as for the ongoing provision of public services. The refinancing will be implemented under the NADB COVID-19 Recovery 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 rights of way are not applicable.

3.1.5. Project Milestones

The Commissioners Court of Maverick County will meet on August 31, 2020, to take the actions necessary to authorize the issuance of the County's Limited Tax Refunding Bonds in order to approve the refinancing debt.

3.1.6. Management and Operation

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

3.2. Environmental Criteria

3.2.1. Environmental and Health Effects/Impacts

A. <u>Existing Conditions</u>

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

B. <u>Project Impacts</u>

As previously mentioned, the Project is expected to help Maverick County improve its liquidity position by providing a more efficient debt service cash flow. Since the Project consists of refinancing existing debt at a lower interest rate, the new loan is expected to save the County US$230,000 annually on debt service, which represents about 37.0% of the County's water-related expenses in 2019. These savings will benefit county residents, as they will increase the financial capacity of the County to operate and maintain existing infrastructure and continue providing crucial public services, without having to place an additional property tax burden on its residents.

By refinancing its debt, Maverick County will also be able to further invest in necessary capital improvement projects. In particular, the County is looking to invest an estimated US$6 million in community infrastructure projects in the short term. NADB has been working with the County, through its financial advisor, to participate in this financing package. A separate project proposal, also through the NADB COVID-19 Recovery Program, will be presented for Board consideration once all the information requirements have been met by the County.

Finally, having access to better financing terms allows the County to limit any impact to fees or rates associated with the public services it provides. This benefit has become increasingly relevant in communities that have been severely impacted by the economic downturn 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 environmental laws is not applicable.

A. Environmental Clearance

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

B. Mitigation Measures

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

C. Pending Environmental Tasks and Authorizations

There are no environmental authorizations pending for the Project.

3.3. Financial Criteria

3.3.1 Sources and Uses of Funds

The Project Sponsor has requested a NADB loan to refinance US$18 million in existing debt. Table 1 presents a breakdown of the estimated Project costs and proposed sources of funding.

Table 1
SOURCES AND USES OF FUNDS
(US$)

Uses	Amount	%
County Existing Debt*	$ 18,000,000	100.0
TOTAL	**$ 18,000,000**	**100.0**
Sources	**Amount**	**%**
NADB Loan	$ 18,000,000	100.0
TOTAL	**$ 18,000,000**	**100.0**

* Includes financing costs.

The recently approved COVID-19 Recovery 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 infrastructure.

The County has roughly US$17.3 million outstanding with a non-callable option until March 1, 2023. The Bank will refinance up to US$18.0 million for the existing bonds dated after the call date, which accounts for US$14.9 million of principal and US$3.1 million of interest due from the existing debt until the call date. By refinancing the existing debt at a lower interest rate, the County will greatly reduce its debt service obligations, thus achieving more efficient debt service cash flows. For County fiscal years 2021-2034, debt service obligations are expected to decrease by about US$230,000 annually. The expected US$230,000 annual savings represented roughly 37.0% of the County's water-related expenses for 2019. Furthermore, the County intends to issue an additional US$6.2 million in general obligation debt for the construction of public infrastructure projects. The savings from refinancing the existing debt will cover 65% of the debt service requirements during the first three years for this new debt. As a result, the debt service savings from the refinancing will benefit county residents, since the County will be able to continue investing in capital improvement projects without placing any additional property tax burden on its residents.

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 $100 of assessed value on all taxable property within the county, 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 "Maverick County, 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 County separate and apart from all other funds and accounts of the County.

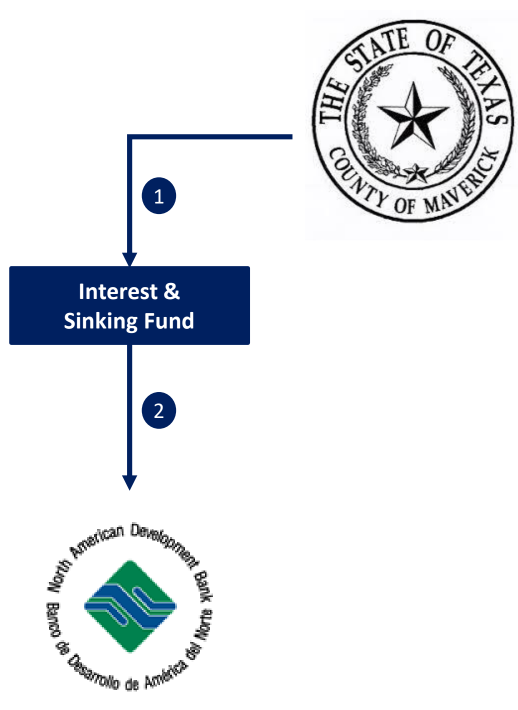
The proceeds from all taxes levied, assessed and collected shall be deposited into the Interest and Sinking Fund. The ad valorem tax collection and all amounts on deposit in or required to be deposited in the Interest and Sinking Fund will be pledged irrevocably to the payment of the principal and interest 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 County during the execution of the refunding bonds. The following diagram illustrates the loan payment mechanism.

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

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

Figure 2
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 County and the sufficiency of its principal source of payment for the Loan. The analysis considers the County'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.[21]

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 County 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.

Default on general obligation debt is exceedingly rare. Only eight defaults on general obligation bonds from a city or county have occurred since 1970, and the average ultimate recovery rate is 75%.[22] Specifically, three defaults have occurred on county general obligation debt, with one in 1988, 1994, and 2008. The historical average ultimate recovery rate on county defaulted debt is 92%.

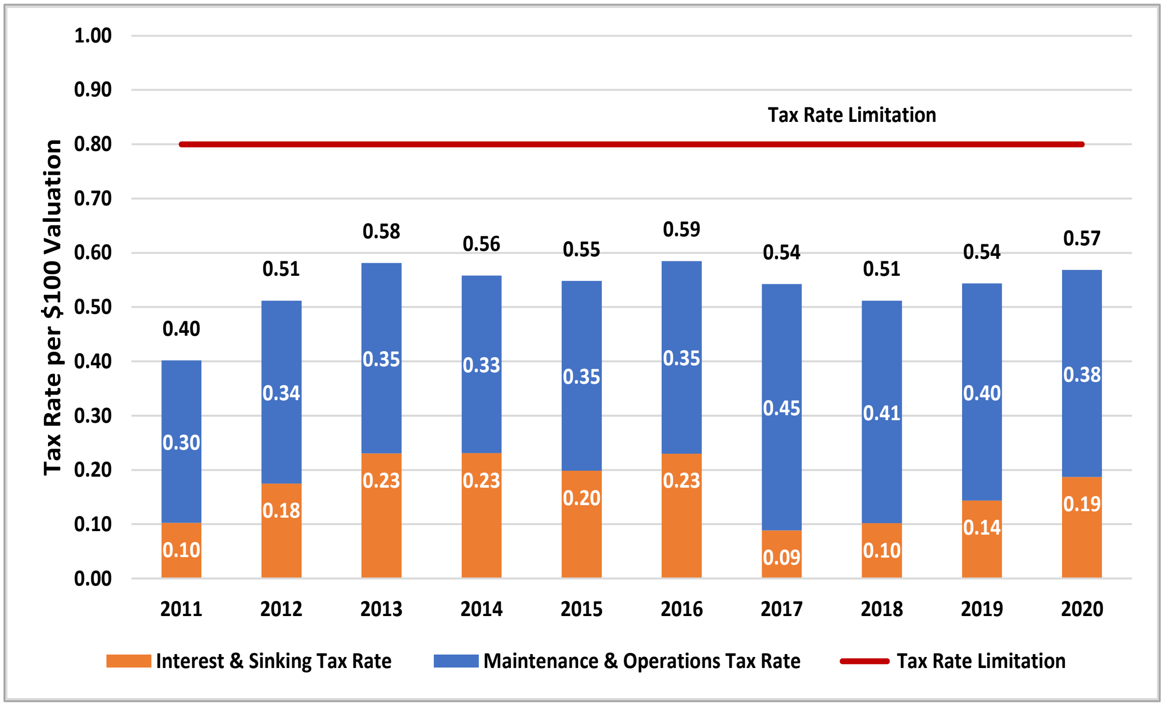
Tax Rate Limitation

As 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 county, 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 VIII, Section 9), is a tax rate capacity of US$0.80 per US$100 of assessed value on taxable property for all purposes of the general fund. Additionally,

[21] Source: Moody's Investor Service, *US Local Government General Obligation Debt Municipal Bond Defaults and Recoveries 1970-2017*, December 16, 2016.
[22] Source: Moody's Investor Service, *US Municipal Bond Defaults and Recoveries 1970-2017*, July 31, 2018, pages 5 & 26).

of that amount, no more than US$0.40 per US$100 of assessed value can be pledged to an Interest and Sinking Fund (I&S) to pay for debt service.

Figure 3
HISTORICAL DISTRIBUTION OF PROPERTY TAX RATE FOR MAVERICK COUNTY



The figure above illustrates the County's historical tax rate distribution by the I&S tax rate and Maintenance and Operation tax rate (M&O). The proportion of ad valorem tax allocated to debt service has been relatively stable as it has fluctuated with debt service requirements. The drop from US$0.23 to US$0.09 in 2017 is primarily due to a 2016 refunding bond issuance to lower interest payments and a lower principal amortization schedule. The increase from US$0.14 to US$0.19 in 2020 is primarily due to US$9.0 million in new County debt issuances.

As shown in Figure 3, the County has significant revenue raising capacity within the tax rate limitation imposed by state law. Using the 2020 I&S tax rate of US$0.19 per US$100 of assessed value, the County can legally increase the I&S tax levy to US$10.2 million or 2.1x the current levy of US$4.85 million, and still be within the state limit of US$0.40. In relation to the total tax rate of US$0.80 per US$100 valuation, the County can legally increase the combined tax levy to US$20.5 million or 1.4x the current combined tax levy of US$14.7 million, and still be within the state limit of US$0.80 for the general fund. The County'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 County's ability to generate sufficient revenue to cover debt service and maintenance and operations.

County Tax Base

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

Table 2
TAX BASE HISTORY
(US$)

Tax Year	Estimated Population	Taxable Assessed Valuation	Taxable Value Per Capita	Gross Debt Outstanding	Debt-to-Taxable Value
2011	54,258	$ 1,725,724,269	$ 31,806	$ 24,365,000	1.4%
2012	55,260	1,714,363,936	31,024	23,900,000	1.4%
2013	55,765	1,845,976,847	33,103	30,495,000	1.7%
2014	56,532	2,021,608,086	35,760	29,940,000	1.5%
2015	57,115	2,147,704,137	37,603	27,460,000	1.3%
2016	57,720	2,160,648,623	37,433	25,890,000	1.2%
2017	58,041	2,276,997,310	39,231	24,725,000	1.1%
2018	58,111	2,331,664,354	40,124	22,290,000	1.0%
2019	58,276	2,441,163,497	41,890	21,125,000	0.9%
2020	58,722	2,561,186,139	43,615	29,144,845	1.1%

Table 2 provides the historical evolution of the County's tax base over the last ten years. When compared to U.S. medians for counties, several of the County's tax base indicators are considered weaker. In 2020, the median taxable property value per capita was US$43,615, compared to the national median of US$82,836 and to the median of US$79,359 for BBB rated counties with a population of less than 100,000.[23] Also, as of 2018, the median debt to taxable value was 1.1%, compared to the U.S. median of 0.5% and a median of 0.6% for BBB-rated counties with a population less than 100,000. While this comparison to U.S. medians demonstrates that the County is a smaller, economically challenged community, the historical trends are positive. While the estimated population has grown 8.2% over the past 10 years, the assessed value of taxable property has increased 48.4%, growing at an average annual rate of 4.5%. Moreover, as property values have increased, outstanding debt has been contained, reflecting a downward trend since 2012, as the ratio of debt to taxable value has decreased from 1.7% to 1.1%.

[23] Source: Moody's Investor Service, Local Government – US Medians, May 6, 2019, pages 6 & 14.

Figure 4
2019 ASSESSED VALUE BY PROPERTY TYPE

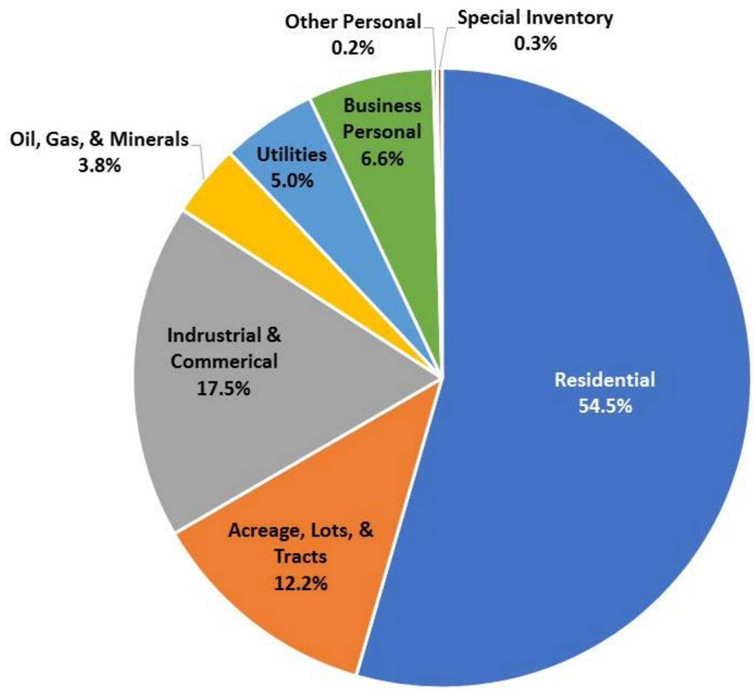


Figure 4 demonstrates that the County's tax base is heavily derived from the residential market and industrial and commercial market, accounting for 54.5% and 17.5%, respectively, of the assessed property value for 2019. There has been minimal volatility in the allocation of assessed value by type over the last five years, as the residential and industrial & commercial markets accounted for 49.0% and 16.0%, respectively, in 2015.

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 county continued to grow 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 County is mandated to operate under a balanced budget and sets the property tax rates based on budgetary needs. If property values decline, the County 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 3 below demonstrates the County's strong property tax collection history.

Table 3
PROPERTY TAX COLLCECTION HISTORY
(US$)

Tax Year	Budgeted Tax Levy	Taxes Collections	% Total Collections
2013	$ 7,985,204	$ 8,536,542	106.9%
2014	8,778,294	9,328,470	106.3%
2015	9,799,993	9,925,325	101.3%
2016	10,122,039	10,891,746	107.6%
2017	10,917,792	11,593,613	106.2%
2018	12,369,812	13,093,924	105.9%
2019	13,648,554	14,420,142	105.7%

Historically, the County has maintained excellent collections rates, with an average annual collection rate exceeding 100% of the budgeted taxes from 2013 to 2019. The strong collection rates also highlight the healthy budgeting practices implemented, as the County includes a buffer in the tax levy to account for property tax delinquencies. 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 County may file suit to foreclose the property to enforce personal liability for the tax.

B. Historical Analysis of the County

The audited annual financial statements of Maverick County are prepared in accordance with accounting principles generally accepted in the United States of America. 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 County has 40 different 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 County 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 County to meet its debt service obligations.

A summary of the annual financial reports on the General Fund from 2015 to 2019 is presented in Table 4 to provide an overview of the County's financial and operational performance.

Table 4
MAVERICK COUNTY GENERAL FUND FINANCIAL STATEMENTS
(US$ Millions)

BALANCE SHEETS	2015	2016	2017	2018	2019
Cash and cash equivalents	$ 1.84	$ 1.99	$ 3.56	$ 6.64	$ 7.08
Other current assets	3.93	3.93	2.82	3.16	4.60
Total assets	**$ 5.77**	**$ 5.92**	**$ 6.38**	**$ 9.80**	**$ 11.68**
Current liabilities	$ 9.69	$ 9.75	$ 8.06	$ 8.19	$ 7.80
Total liabilities	**9.69**	**9.75**	**8.06**	**8.19**	**7.80**
Restricted	5.12	1.10	0.50	0.51	0.78
Unassigned	(9.04)	(4.94)	(2.18)	1.10	3.10
Total fund balance	**(3.92)**	**(3.84)**	**(1.68)**	**1.61**	**3.88**
Total liabilities & fund balance	**$ 5.77**	**$ 5.92**	**$ 6.38**	**$ 9.80**	**$ 11.68**

STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES	2015	2016	2017	2018	2019
Property taxes	$ 9.93	$ 10.89	$ 11.59	$ 13.09	$ 14.42
Sales taxes	3.02	2.51	2.45	2.68	2.91
Other revenue	1.97	2.22	3.75	6.61	5.88
Total revenue	**14.92**	**15.62**	**17.80**	**22.39**	**23.21**
Maintenance and operations	12.55	14.02	14.87	15.88	17.38
Debt service	4.61	4.02	2.77	2.66	3.55
Total expenses	**17.16**	**18.04**	**17.64**	**18.55**	**20.93**
Other financing sources (uses)	**2.39**	**2.61**	**2.03**	**(0.33)**	**(0.29)**
Net change to fund balance	**$ 0.14**	**$ 0.19**	**$ 2.19**	**$ 3.51**	**$ 1.98**
Beginning fund balance	$ (4.42)	$ (3.92)	$ (3.84)	$ (1.68)	$ 1.61
Adjustment	0.37	(0.11)	(0.04)	(0.21)	0.28
Ending fund balance	**$ (3.92)**	**$ (3.84)**	**$ (1.68)**	**$ 1.61**	**$ 3.88**

Table 5
MAVERICK COUNTY FINANCIAL RATIOS

	2015	2016	2017	2018	2019
Current ratio	0.60	0.61	0.79	1.20	1.50
Fund balance as % of revenue	-26.2%	-24.6%	-9.5%	7.2%	16.7%
Cash balance as % of revenue	12.3%	12.7%	20.0%	29.7%	30.5%

As shown in Table 4, the County's primary source of operational revenue is derived from the receipts of ad valorem property taxation, accounting for 62% of revenue in 2019 and 58% in 2018.

Although historically the County's General Fund has been in a deficit position, it also reflects a trend of significant improvement in operation over the last three years. During fiscal years 2015-2017, the County operated on a budget that relied on both revenue from its governmental activities and other financing sources to cover debt service obligations and maintenance and operation expenses. Other financing sources consisted primarily of the transfer of net revenue from other governmental funds. Since 2017, the County has budgeted all General Fund expenses to be covered solely from its governmental activities. The implementation of this practice has had a significant impact on the County's financial position, converting its negative fund balance of US$3.92 million in 2015 to a positive balance of US$3.88 million in 2019. Moreover, the cash balance increased from US$1.84 million to US$7.08 million during the same period.

Another positive indicator is the growth trend in property tax revenue, with an average annual growth rate of 9.8% since 2015 and an increase of 10.1% in 2019 alone. The growth in property tax revenue is the result of a growing tax base and the ability to adjust the tax rate to meet budgetary needs. As of 2019, the County had a General Fund balance as a percentage of revenue of 16.7% and a cash balance as a percentage of revenues of 30.5%. These two indicators climbed to a healthy level relative to BBB-rated counties with a population of less 100,000, which is 11.4% for the fund balance as a percentage of revenues and 13.0% for the cash balance as a percentage of revenues.[24]

The County is in a healthier financial position now compared to the previous four years. Since 2015, revenue has increased by 55.6% or at an average annual rate of 11.7%, while maintenance and operation expenses have increased 38.4% or at an average annual rate of 8.5% and debt service has decreased from US$4.61 million to US$3.55 million. It should also be noted that despite its historical financial distress, the County has never defaulted on the payment of its debt service obligations.

C. Financial Projections of the County

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

- *Basis for projections*: County historical financial statements.
- *Property Tax Revenue*: Based on the amount, within the limit prescribed by law, to pay debt service requirements (I&S) and Maintenance and Operation (M&O) expenses.
- *Maintenance and Operation (M&O) expenses*: Based on the Texas Property Tax Reform and Transparency Act of 2019, which allows a growth rate of 3.5% over the amount of taxes levied the prior year.
- *Current debt*: Based on the County's outstanding debt.

[24] Source: Moody's Investor Service, Local government – US Medians, May 6, 2019, page 14.

Table 6 shows projected cash flows for the duration of the NADB Loan.

Table 6
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	$ 13,650	$ 10,121	$ 3,529	$ 3,522	$ 1	1.00x
2022	13,220	10,475	2,745	2,742	1	1.00x
2023	13,600	10,842	2,758	2,753	1	1.00x
2024	14,680	11,221	3,459	3,453	1	1.00x
2025	14,450	11,614	2,836	2,833	1	1.00x
2026	14,850	12,020	2,830	2,829	1	1.00x
2027	14,580	12,441	2,139	2,131	1	1.00x
2028	15,010	12,877	2,133	2,131	1	1.00x
2029	15,470	13,327	2,143	2,137	1	1.00x
2030	15,930	13,794	2,136	2,133	1	1.00x
2031	16,420	14,276	2,144	2,137	1	1.00x
2032	16,910	14,776	2,134	2,133	1	1.00x
2033	17,430	15,293	2,137	2,130	1	1.00x
2034	17,960	15,829	2,131	2,129	1	1.00x

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

D. <u>Project Debt Service Coverage Ratio (DSCR)</u>

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 County'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:

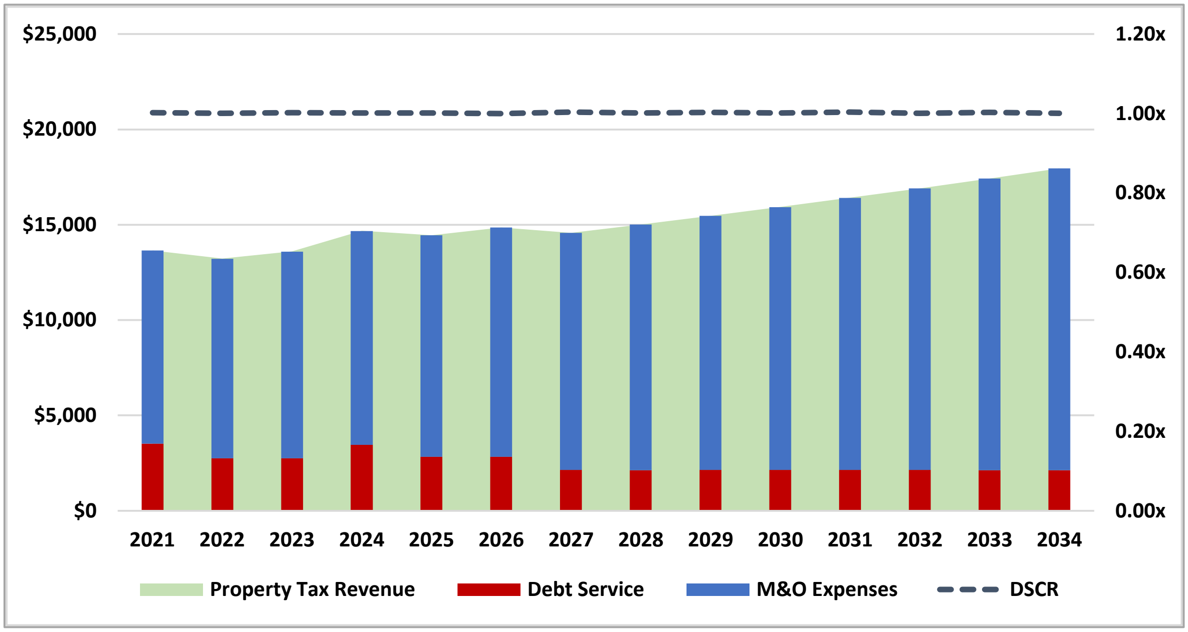
$$DSCR = \frac{(Revenues - Operational\ Expenses)}{(Principal + Interest)}$$

=

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

Figure 5 illustrates the projected distribution of Project cash flows.

Figure 5
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 County will continue to operate under a balanced budget and set property tax rates based on the budget requirements for following fiscal year. Based on the strong and proven institutional framework of the Texas property tax system, with levied property taxes balanced to the following year's budget, NADB considers the pledged cash flows to be sufficient to cover the financial obligations of the Project.

3.3.4. Risk Analysis

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

A. <u>Quantitative Project Risks</u>

1. *<u>Increase in Operating Expenses</u>*: Since the Loan is being repaid by a pledged ad valorem tax, an increase in operating expenses will not impact its repayment. The County will levy a specific ad valorem property tax for the Project, within the limits prescribed by law, on all taxable property in the county, 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, roughly 88% of counties across the nation are expected to report budget impacts and 60% indicate revenues have decreased.[25] Sales tax accounts for most of the expected revenue decrease but 43% of counties expect property tax revenue lags extending into the next budget cycle.[26] Since the source of payment for the Loan is the revenue deriving from a property tax assessed and levied by the County, a decline in taxable values or in tax collection rates could result in less property tax revenue for debt service. However, the County 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. Historically, the County has maintained excellent collections rates, with an average annual rate exceeding 100% of the budgeted taxes from 2013 to 2019. As an additional safeguard against a decline in tax collections, the County maintains a debt service fund, which had a balance of US$777,447 at the close of fiscal year 2019 and can be used to address any shortfalls in the tax collection. The County also had a strong cash position at the end of fiscal year 2019, at US$7.08 million or 30.5% of revenue. Moreover, at the end of May 2020, the County reported a year-to-date gain in its general fund and debt service fund. Finally, the County has never defaulted on the payment of its debt obligations.

3. *Tax-raising Limitation*: While the County's tax rate is limited by state statute to 80 cents per US$100 of assessed value, with no more than 40 cents dedicated to debt service obligations paid by ad valorem pledge, the County has significant tax-raising flexibility well below the state statute. For fiscal year 2020 the total tax rate is 56.87 cents per US$100 of assessed value and 18.69 cents is pledged to an interest and sinking fund. As the Project is a refinancing of existing debt at a higher interest rate, the County is expected to have a significant reduction to its debt service obligations, therefore decreasing the pledge to the interest and sinking fund. For County fiscal years 2021-2034, debt service obligations are expected to decrease by about US$230,000 annually. The projected debt service savings from the refinancing will benefit county residents, since the County will be able to continue investing in capital improvement projects without placing any additional property tax burden on the residents.

B Qualitative Project Risks

1. *Financial/Administrative*: The historical financial position of the County is weak; however, the last three years reflect a trend of significant improvement as the County has been working on building financial flexibility, growing its General Fund reserves and improving its net position. By the end of fiscal year 2019, the County had improved its net position with a positive balance of US$3.88 million in the General Fund. Remedial actions taken by the County to control spending was a fundamental element to achieving a positive General Fund balance. The County intends to continue this practice to rebuild its financial flexibility.

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[25] Source: National Association of Counties (NACo) – Comprehensive Analysis of COVID-19's Impact on County Finances and Implications for the U.S. Economy, July 2020, page 4.
[26] Ibid.

2. *Economic*: Despite the economic uplift provided by its location on the U.S. and Mexico border and increased international trade activity, the county's socioeconomic profile is weak. At the end of 2019, the unemployment rate in the county was approximately 7.5%.[27] Since the effects of the COVID-19 pandemic, the unemployment rate sharply rose to an estimated 21.4%.[28] The poverty level for Maverick County in 2019 was estimated at 26.8%, considerably higher than the 14.9% poverty level estimated for the state.[29] Area wealth levels as measured by per capita income are also very low. Nevertheless, since 2010, the assessed value of taxable property has increased 48.4%, growing at an average annual rate of 4.5%, while the County has maintained excellent property tax collection rates, which have consistently exceeded 100% of annual budgeted taxes since 2013.

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

4. PUBLIC ACCESS TO INFORMATION

4.1 Public Consultation

NADB published the draft certification and financing proposal for a 30-day public comment period the began on July 30, 2020 and ended August 29, 2020, with no comments received.

4.2 Outreach Activities

NADB conducted a media search to identify potential public opinion about the Project. References to the impact of the COVID-19 pandemic on the community were found on the websites listed below:

- *Eagle Pass Business Journal, Inc.* (August 6, 2020) "*COVID-19 Infections Uncontrollable in Maverick County as 111 New Confirmed Positive Cases Reported on August 5, 2020, Bringing Total to 2,321 Cases and 46 Deaths.*" https://www.epbusinessjournal.com/2020/08/covid-19-infections-uncontrollable-in-maverick-county-as-111-new-confirmed-positive-cases-reported-on-august-5-2020-bringing-total-to-2321-cases-and-46-deaths/

- *Office of the Texas Governor* (July 31, 2020) "*Governor Abbott Holds Virtual Meeting on COVID-19 with Laredo, Eagle Pass Leaders*".

[27] Source: U.S. Bureau of Labor Statistics.
[28] Source: Economic Research Federal Reserve Bank of St. Louis.
[29] Source: U.S. Census Bureau.

https://gov.texas.gov/es/news/post/governor-abbott-holds-virtual-meeting-on-covid-19-with-laredo-eagle-pass-leaders

No public opposition to the Project has been detected.

5. RECOMMENDATION

Certification Criteria Compliance

The Project falls within the eligibility of the NADB COVID-19 Recovery Program, since Maverick County 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 concluded on August 29, with no comments received. The Project review performed by the NADB Chief Environmental Officer confirms that the Project complies with all the certification requirements, and there are no pending activities required for compliance.

Funding Criteria Compliance

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 COVID-19 Recovery Program. Therefore, NADB proposes providing a market-rate loan for up to US$18 million to Maverick County, 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.