CERTIFICATION AND FINANCING PROPOSAL

LANDFILL EXPANSION PROJECT
IN MAVERICK COUNTY, TEXAS

Revised: May 20, 2019

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EXECUTIVE SUMMARY

LANDFILL EXPANSION PROJECT IN MAVERICK COUNTY, TEXAS

Project: The proposed project consists of expanding the landfill in Maverick County, Texas, by opening a third cell (the "Project").

Objective: The purpose of the Project is to provide adequate solid waste disposal services to the residents of Maverick County and thus minimize the potential for illegal dumping and the associated environmental and health risks.

Expected Outcomes: The environmental and human health outcomes anticipated as a result of the Project include the capacity to manage the proper transfer and disposal of approximately 150 tons of solid waste per day in compliance with federal and state laws.

Population Benefitted: 54,258 residents of Maverick County, Texas.[1]

Sponsor: Maverick County, Texas.

Borrower: Maverick County, Texas.

Project Cost: US$3,446,000.

NADB Loan: US$2,920,000.

NADB Grant: Up to US$150,000 from the Community Assistance Program (CAP).

Uses and Sources of Funds:
(US$)

Uses	Amount	%
Construction	$ 2,800,000	81.25
Soft costs*	646,000	18.75
TOTAL	**$ 3,446,000**	**100.00**
Sources	**Amount**	**%**
NADB loan	$ 2,920,000	84.74
NADB CAP grant	150,000	4.35
Maverick County	376,000	10.91
TOTAL	**$ 3,446,000**	**100.00**

* Includes design, land, supervision and financing costs.

[1] Source: U.S. Census Bureau, 2010 Census.

Interest Rate: A fixed market-rate in dollars.

Repayment Period: Up to sixty-six (66) months.

Repayment Source:

1. 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.

2. Pledge of surplus net revenue generated by the County's Solid Waste Management System.

Interest Payments: Semi-annual.

Principal Payments: Annual.

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

Project Status:

Key Milestones	Status
Final design	Completed in January 2019
Approval to construct from TCEQ	Issued September 11, 2007
Procurement	In process; bids have been received
Notice of award	Expected in June 2019

* Texas Commission on Environmental Quality (TCEQ)

CERTIFICATION AND FINANCING PROPOSAL

LANDFILL EXPANSION PROJECT IN MAVERICK COUNTY, TEXAS

1. PROJECT OBJECTIVE AND EXPECTED OUTCOMES

The proposed project consists of expanding the landfill in Maverick County, Texas, by opening a third cell (the "Project"). The purpose of the Project is to provide adequate solid waste disposal services for the residents of Maverick County and thus minimize the potential for illegal dumping and the associated environmental and health risks. The Project is expected to generate environmental and human health benefits by providing additional capacity to continue managing the proper disposal of approximately 150 tons of solid waste a day in full compliance with applicable regulations.

2. ELIGIBILITY

2.1. Project Type

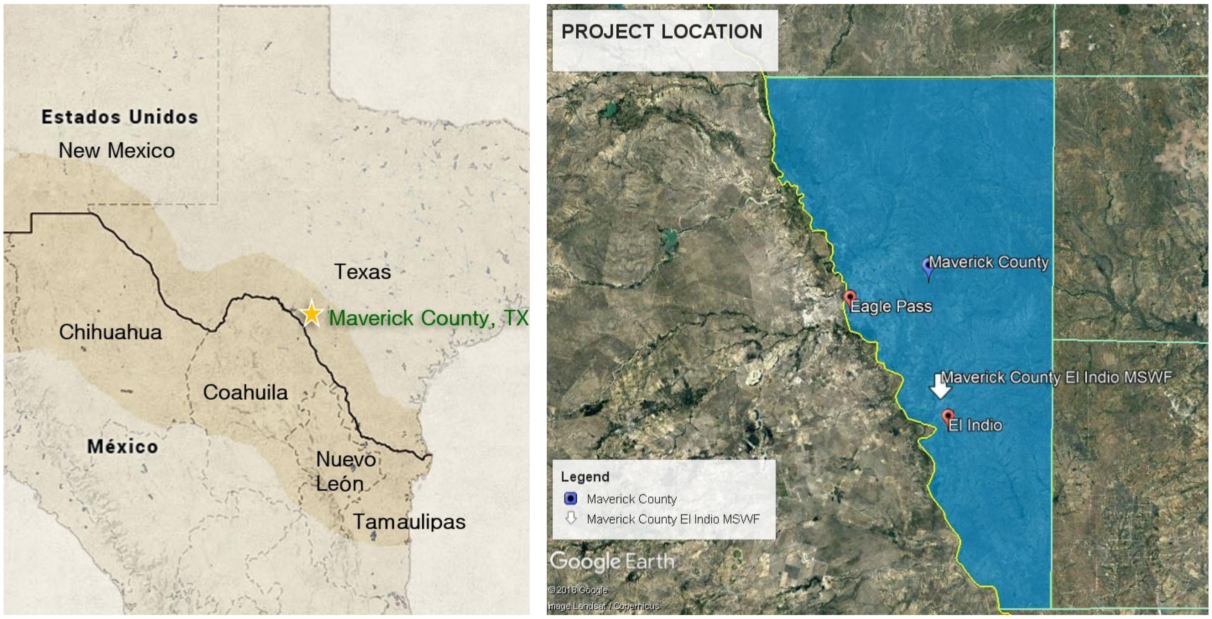
The Project falls within the eligible category of solid waste management.

2.2. Project Location

The El Indio Municipal Solid Waste Facility (MSWF) is located approximately two miles north of the community of El Indio and approximately 16 miles south of the city of Eagle Pass, Texas. It is approximately three miles north of the U.S.-Mexico border. El Indio MSWF is situated on the east side of Farm to Market (FM) Road 1021, approximately 1.5 miles north of the intersection of FM 1021 and FM2366, at the following geographical coordinates 28° 32' 30" N and 100° 19' 23" W. The total facility boundary is approximately 180 acres.

Figure 1 shows the approximate location of the Project.

Figure 1
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 its MSWF through the Maverick County Solid Waste Authority Inc. (MCSWA). On August 10, 2009, the Maverick County Commissioners Court approved the creation of the MCSWA, as a Texas non-profit corporation for the purpose of operating the Type I landfill for the County. It was formed pursuant to the Texas Transportation Code and is authorized to assist and act on behalf of Maverick County to accomplish any governmental purpose of Maverick County. Its five-member Board of Directors is appointed and approved by the Maverick County Commissioners Court. The MCSWA was formed on August 25, 2009 and commenced operations on October 7, 2009. It assumed operation of the County landfill on October 1, 2010.

Additionally, pursuant to Chapter 1431 of the Texas Government Code, as amended, the Commissioners Court of the County is authorized and empowered to issue tax notes for the purpose of paying contractual obligations of the County to be incurred for the construction of public works and for other public purposes, such as designing, constructing, equipping, repairing, expanding and improving the County landfill (including the relocation of utilities relocations and related infrastructure improvements).

3. CERTIFICATION CRITERIA

3.1. Technical Criteria

3.1.1. General Community Profile

The El Indio MSWF serves all Maverick County. According to the population projections of the U.S. Census Bureau, the county had 58,216 residents in 2017, an increase of 7.3% since 2010.[2] Eagle Pass, the county seat and most populous community, is in southwestern Maverick County on the Union Pacific Railroad, immediately east of the Rio Grande and across from Piedras Negras, Coahuila. Other communities in the county include Quemado, Normandy and El Indio.

The county's economic activities are based primarily on mining, quarrying oil, gas extraction, public administration, transportation and warehousing. The unemployment rate in the county is approximately 8.5%.[3] The poverty level for Maverick County is estimated at 27%, considerably higher than the 14.7% poverty level estimated for the state.[4] The median household income (MHI) in 2017 was estimated at US$37,734, which is 34% less than the state MHI of US$57,051.[5]

Public services provided by the County include public safety, airport and landfill operations, including collection services for the unincorporated areas of the county for brush and other bulky items. Additionally, the County owns and operates a small drinking water treatment plant and distribution system for the community of Quemado with a population of approximately 230 residents.

Local Solid Waste Management

According to the data files of the Texas Commission on Environmental Quality (TCEQ), there are 191 active Type I and Type IV landfills in the state of Texas. Type I landfills are allowed to receive all municipal waste, and Type IV landfills may only accept brush, construction and demolition debris or rubbish, but no no household waste. Maverick County has two landfills: the City of Eagle Pass and Maverick Landfill, a Type IV facility; and the Maverick County El Indio MSWF Landfill, a Type I facility.[6] The proposed Project will expand the current operating capacity of the El Indio MSWF Landfill.

The El Indio MSWF Landfill serves most of the county's existing population. In September 2007, the TCEQ issued permit No. 2316 in accordance with the Texas Health & Safety Code, Chapter 361, and Title 30 Texas Administrative Code (30 TAC), Chapter 330, for the operation of the landfill. It consists of one continuous development, which is intended to support a total of 16 proposed cells for a total capacity of nearly 14 million cubic yards of waste. Two cells have been built to date. Figure 2 depicts the overall permitted landfill site.

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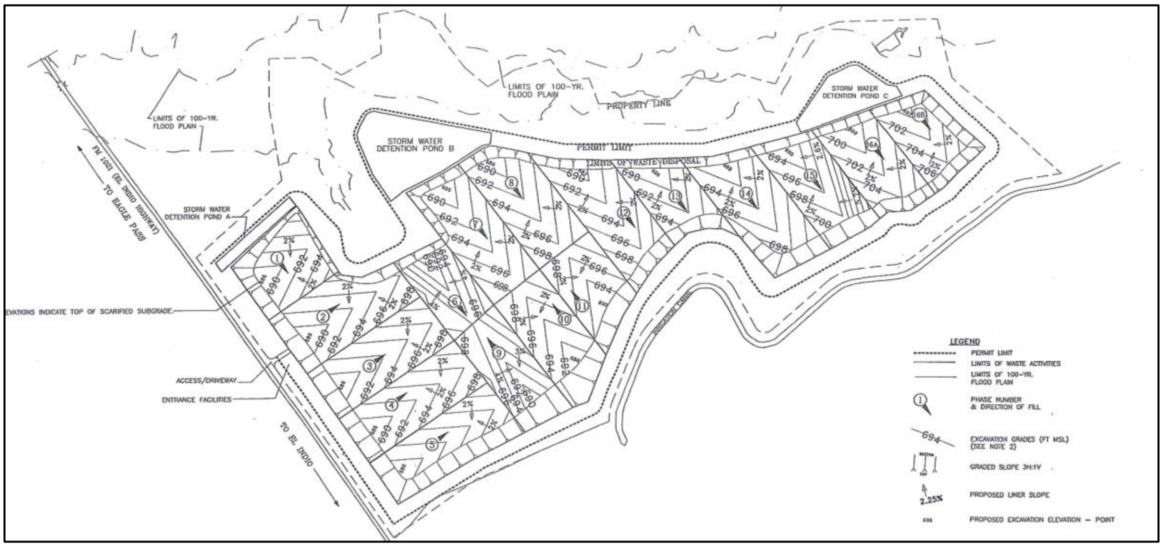
[2] Source: U.S. Census Bureau, Population Estimates Program (PEP), updated annually.
[3] Source: U.S. Bureau of Labor Statistics.
[4] Source: U.S. Census Bureau, QuickFacts.
[5] Source: U.S. Census Bureau, QuickFacts.
[6] Source: https://www.tceq.texas.gov/permitting/waste_permits/msw_permits/msw-data

Figure 2
PERMITTED LANDFILL SITE



The landfill is permitted to receive municipal solid waste, including, garbage, rubbish, ashes, brush, street cleanings, dead animals and abandoned automobiles, as well as construction and demolition waste. Residential waste and brush in Maverick County are collected by the City of Eagle Pass through its Public Works Department and disposed of at the landfill. The landfill also receives solid waste from private commercial entities (primarily landscape and construction companies). Additionally, the landfill has four collection trucks that collect brush and bulky items three weeks each quarter in the four precincts delineated within the county.

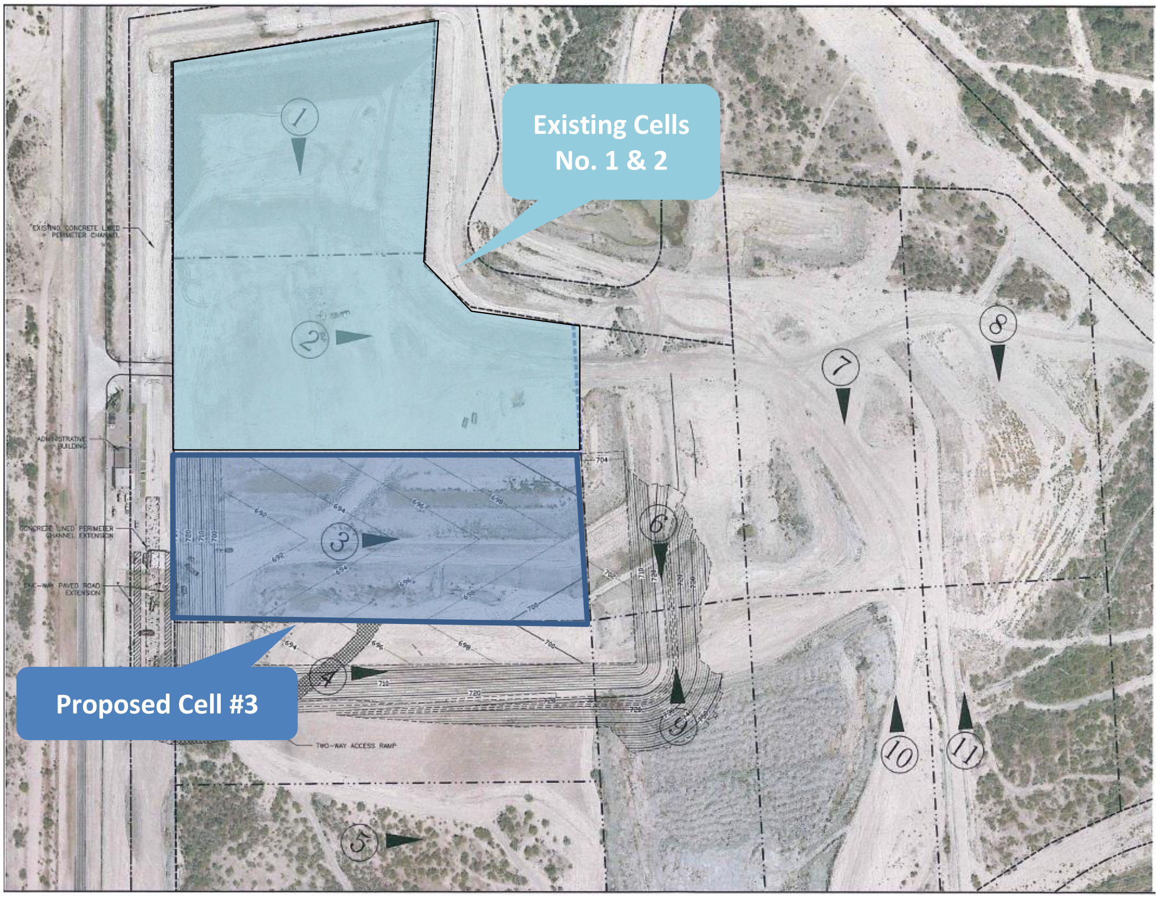
The facility is permitted to receive up to 150 tons of waste a day, and the average monthly waste acceptance rate is 3,861 tons/month or an average of less than 130 tons a day.[7] According to an Assessment of Constructed Remaining Airspace developed by the County's engineering consultant, as of October 2018, the landfill had an estimated 15.6 months of remaining operational life. Therefore, Cells No. 1 and 2 are expected to reach design capacity in or around February 2020. For this reason, the County is planning to expand the landfill with the construction of Cell No. 3.

3.1.2. Project Scope

The Project consists of expanding the El Indio MSWF by constructing a third cell. The facility currently operates Cells No. 1 and 2 and is planning the construction of Cell No. 3. The current layout of the landfill is presented in Figure 3.

[7] Source: TCEQ, 2016-2017 Annual Report.

Figure 3
LANDFILL SITE LAYOUT



The construction activities for the Project include:

1. Earthwork for clearing, grubbing, excavating and structural fill in preparation for the liner subgrade.
2. Underdrain system comprised of a pumping system and underdrain collection trenches and sump filled with drainage aggregate and wrapped in non-woven geotextile.
3. Cell floor and side slope liner systems comprised of a geosynthetic clay liner and a 60-mil high-density polyethylene (HDPE) geomembrane.
4. Leachate collection system, comprised of a pumping system, a 250-mil drainage geo-composite layer (single sided on the floor and double sided on the side slopes), leachate collection piping and sump encased with drainage aggregate and wrapped in non-woven geotextile.
5. 2-foot protective soil cover for the liner.
6. Access road extensions (base aggregate surface underlain with woven geotextile), including a two-way access ramp for Cell No. 3 and one-way access road extensions.

7. Other miscellaneous earthen embankments and appurtenances.

Cell No. 3 is designed to hold up to 312,500 tons of solid waste, which is equivalent to approximately 6.7 years of useful life.

3.1.3. Technical Feasibility

The waste management facility is designed, constructed, operated and maintained to prevent the release and migration of any waste, contaminant or pollutant beyond the point of compliance as defined in 30 TAC§330.2 and to prevent inundation or discharges from the areas surrounding the facility components.

The basic design of the landfill consists of an area fill method, combining below-grade and above-grade landfill space for maximum site use. The proposed cell construction will extend approximately 50 feet below the natural ground level to a finished base grade (top of liner) elevation ranging from 692 feet to 714 feet. The liner system will consist of two (2) feet of compacted clay with a 60-mil HDPE geomembrane and a geo-composite drainage layer. The liner systems will include a leachate collection system consisting of a sump and leachate collection trenches sloped at a minimum of 1.0%. The floor of the landfill cell will slope at 1.0%. The maximum excavation for the liner and sumps (leachate collection) is approximately 56 feet below existing ground level, to approximately 686 feet. The maximum waste elevation is approximately 829.5 feet.

The design of Cell No. 3 is in compliance with the current TCEQ permit to process municipal solid waste material and prevent its release into the environment. It will have a containment system that will collect spills and incidental precipitation in so as to:

- Preclude the release of any contaminated runoff, spills or precipitation;
- Prevent washout of any waste by a 100-year storm; and
- Prevent runoff from flowing into the disposal areas from off-site areas.

While part of the land owned by Maverick County is in the 100-year floodplain of Saus Creek, no portion of the permitted landfill will be located within the floodplain. Additionally, the Project is aligned with the Middle Rio Grande Regional Solid Waste Management Plan.

3.1.4. Land Acquisition and Right-of-way Requirements

Construction of Cell No. 3 will be completed within existing property and rights-of-way owned by Maverick County. No additional land or easements are required to implement the Project.

3.1.5. Project Milestones

Once the notice to proceed is issued, construction is expected to take approximately four months to complete. Table 1 provides a summary of the critical Project milestones and their respective status.

Table 1
PROJECT MILESTONES

Key Milestones	Status
Final design	Completed in January 2019
Approval to construct from TCEQ	Issued September 11, 2007
Procurement	In process; bids have been received
Notice of award	Expected in June 2019
Construction period	Estimated period of 4 months

3.1.6. Management and Operation

The El Indio MSWF is operated as a Type I Municipal Solid Waste Facility, with a TCEQ permit to accept municipal waste and industrial waste, such as construction and demolition materials. In accordance with the permit, the County is responsible for operating and maintaining the landfill cells with liners, along with access roads, scales, gate house, dikes, berms and drainage channels. Additionally, the facility must manage stormwater control structures, a well system for monitoring groundwater, landfill gas monitoring systems, leachate collection systems and other improvements.

The landfill operates Monday through Friday between 7:00 am and 4:00 pm and Saturdays between 7:00 am to 12:00 pm. Landfill operations are supported by a staff of 14 employees, including personnel for general management and administration; landfill operations, including heavy equipment operators, mechanics and scale attendants; and truck operators responsible for the brush pickup schedule offered to the unincorporated areas of Maverick County. The County is divided into four precincts, and the landfill picks up brush and other bulky items in each precinct for three straight weeks each quarter. The City of Eagle Pass, using its own equipment and employees, picks up residential garbage throughout the county. An annual budget for training is provided to support proper operation of the landfill and to comply with the TCEQ operation permit.

The landfill has a fixed inventory of machinery and equipment that meets its operational needs. The equipment can be divided into three functional categories: waste movement and compaction; earth movement and compaction to cover waste; and support functions. The equipment is in good working condition and is maintained on a regular basis, in accordance with the equipment lease agreements.

In accordance with the TCEQ permit, landfill gas concentrations are monitored on a quarterly basis using eight landfill gas monitoring probes to ensure there is no gas migrating outside the cell. This system allows potential environmental issues to be identified early, evaluated and corrected in accordance with applicable regulations. According to the landfill gas monitoring report for the first quarter of 2019, no methane concentrations were detected at any of the probes.

3.2. Environmental Criteria

3.2.1. Environmental and Health Effects/Impacts

A. Existing Conditions

Maverick County is currently operating Cells No. 1 and 2 of the El Indio MSWF. These cells are expected to reach design capacity in or around February 2020. To maintain proper waste management, the county is planning to expand the landfill with the construction of Cell #3.

The no-action alternative was not considered viable, since there is not an alternative landfill that accepts residential waste, and the existing cells will reach design capacity within a year. Therefore, the Project is considered a high priority.

Deficient management of solid waste can cause environmental problems that impact air quality, ground and surface water conditions and soil conditions; increase the possibility of fires in illegal dumpsites; and provide breeding grounds for disease-carrying rodents and insects. This Project minimizes the possibility of illegal dumping in the county and thus the potential environmental and health risks associated.

B. Project Impacts

The environmental and human health outcomes anticipated as a result of the Project include the capacity to manage the proper transfer and disposal of approximately 150 tons of solid waste per day in compliance with federal and state laws.

Expansion of Cell #3 is designed to process solid waste material in a confined structure and prevent its release into the surrounding environment with the capacity to hold 312,500 tons or approximately 6.7 years of useful life. The facility's drainage plan and established operating procedures ensure minimal contact between rainfall runoff and the refuse. Current operating procedures also contain provisions related to wet weather, windblown waste, endangered species, special waste storage and disposal and fire control. Additionally, landfill gas is monitored on a quarterly basis. To date, no methane emissions have been detected.

C. Transboundary Impacts

Transboundary environmental impacts are not anticipated since the landfill is not adjacent to the U.S.-Mexico border and all operations will occur within the confines of the facility site. Additionally, the El Indio landfill does not receive or send waste outside the United States.

3.2.2. Compliance with Applicable Environmental Laws and Regulations

The Project is in compliance with all environmental and cultural laws and regulations based on the general requirements of Chapter 330 of the Texas Administrative Code, as required by TCEQ for municipal solid waste transfer facilities, as well as Chapter 361 of the Texas Health and Safety Code.

A. <u>Environmental Clearance</u>

The County's MSWF operates in accordance with TCEQ permit No. 2316. In applying for the permit, an environmental assessment was conducted, which included consultations to identify applicable regulations, sensitive characteristics of the Project area and recommended mitigation activities, with the following state and federal agencies:

- Texas Commission on Environmental Quality;
- Texas Department of Transportation;
- Texas Historical Commission;
- Texas Parks and Wildlife;
- U.S. Fish and Wildlife;
- U.S. Army Corps of Engineers; and
- Federal Aviation Administration

As a result of these interagency consultations, any necessary requirements for landfill construction and/or operation were incorporated into the TCEQ permit.

The TCEQ Laredo Region Office conducted an inspection of the County MSWF to evaluate compliance with applicable municipal solid waste requirements. According to a TCEQ letter dated April 13, 2018, no violations were identified as a result of the inspection.

There are no other formal environmental clearance laws applicable to the Project.

B. <u>Mitigation Measures</u>

The Project will mitigate the environmental and human health risks associated with inadequate solid waste management. Current operations require that all waste transportation vehicles have adequate covers or other means of containment and that waste fill areas must be covered daily with soil not previously in contact with waste. The construction method specified for the development of Cell No. 3 will allow the landfill to continue operating without interruption.

In accordance with the TCEQ permit, a Storm Water Pollution Prevention Plan was completed prior to construction at the site. The permit also requires the landfill to implement mitigation measures related to landfill gas, groundwater protection and liner integrity.

No other environmental impacts are anticipated during construction of the Project, provided that the tasks are implemented in accordance with best management practices. Typical mitigation measures to be practiced during the implementation phase include:

- Application of water to reduce fugitive dust emissions;
- Vehicle tune-ups to reduce emissions; and
- Placement of warning signs to prevent potentially hazardous situations.

C. Pending Environmental Tasks and Authorizations

There are no environmental authorizations pending.

3.3. Financial Criteria

3.3.1 Sources and Uses of Funds

The total cost of the Project is estimated at US$3.45 million for construction and other related costs. The Project Sponsor has requested financing from NADB to complete the funding of the Project. NADB is proposing to provide a US$2.92 million loan, supported by a grant for up to US$150,000 from its Community Adjustment Program (CAP). Table 2 presents a breakdown of the estimated Project costs and proposed sources of funding.

Table 2
SOURCES AND USES OF FUNDS
(US$)

Uses	Amount	%
Construction	$ 2,800,000	81.25
Soft Costs*	646,000	18.75
TOTAL	**$ 3,446,000**	**100.00**
Sources	**Amount**	**%**
NADB Loan	$ 2,920,000	84.74
NADB CAP Grant	150,000	4.35
Maverick County	376,000	10.91
TOTAL	**$ 3,446,000**	**100.00**

* Includes design, land, supervision, and financing costs.

The CAP grant component is intended to provide taxpayers with the most affordable financial package. While the MCSWA is the entity that will operate and generate revenue through service fees derived from the Project, it does not have the financial capacity to support additional debt and has a limited capacity to increase rates for services due to existing agreements. So rather than financing revenue bonds through the MCSWA, the County is funding the Project though the property taxes of the County residents, limiting the County resources available for other infrastructure needs. Moreover, the county is an economically challenged community with limited access to traditional financial markets. The area wealth income indicators are considered low compared to national and state medians. The median household income (MHI) in 2017 was estimated at US$37,734, which is 34% less than the state MHI of US$57,051,[8] and the poverty level for Maverick County is estimated at 27%, considerably higher than the 14.7% poverty level estimated for the state.[9] The CAP grant will help reduce the financial burden of the loan on County taxpayers.

The proposed Project complies with all CAP criteria. It is located within the U.S.-Mexico border region served by NADB, is being sponsored by a public entity and is in an environmental sector eligible for NADB financing. Additionally, as a solid waste project, it is considered a priority under the provisions of the CAP Program. As shown in Table 2, the Project Sponsor has agreed to cover 10.91% of the project cost with its own funds, which is slightly more than the 10% minimum required under the program, in addition to financing a substantial portion of the cost with a loan.

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 tax note, Series 2019 debt instrument (the "Loan"). The source of payment for the Loan will be an ad valorem tax per $100 of assessed value on all taxable property within the 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 Tax Notes, Series 2019A, 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.

Furthermore, the Sponsor will pledge, as security, the surplus of any net revenue from the County's Solid Waste Management System after payment of all operation and maintenance expenses thereof. The surplus revenue will be irrevocably pledged equally and ratably to the payment of the principal of and interest on the Loan, as the same become due to the extent the property taxes mentioned above shall ever be insufficient or unavailable for such purpose. It is the intent and purpose of the County that the ad valorem tax levied each year will be sufficient to cover debt service.

[8] Source: U.S. Census Bureau, QuickFacts.
[9] Ibid

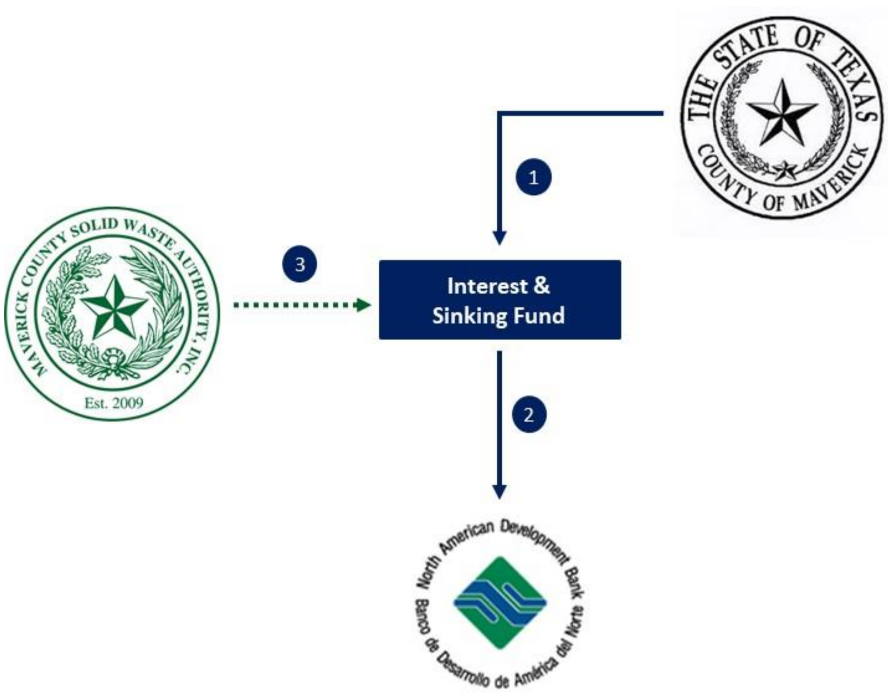
NADB will receive payments on the Loan through a paying agent contracted by the County during the execution of the tax notes. The following diagram illustrates the loan payment mechanism.

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.

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

Figure 4
LOAN PAYMENT MECHANISM



3.3.3 Financial Analysis of the Source of Payment

The purpose of this section is to evaluate the financial viability of the Project by conducting 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 contracted for the construction of the Project.

A. Texas Property Tax System

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

State law has established a process to be followed by local governments for the implementation of property value assessments, implementation of tax rates, and collection of taxes. This institutional framework for the Texas property tax system has been considered very strong when compared to the nation by Moody's Investors Service.[10]

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 the disposal of waste, as in the case of the Project.

Default on general obligation debt is exceedingly rare. Only three defaults on county general obligation bonds have occurred since 1970, and the average ultimate recovery rate is 75%.[11]

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, 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.

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

Figure 5
HISTORICAL DISTRIBUTION OF PROPERTY TAX RATE FOR MAVERICK COUNTY

Figure 5 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 2016 is primarily due to a refunding bond issuance to lower interest payments and a lower principal amortization schedule.

As shown in Figure 5, the County has significant revenue raising capacity within the tax rate limitation imposed by state law. Using the 2019 I&S tax rate of US$0.14 per US$100 of assessed value, the County can legally increase the I&S tax levy to US$9.8 million or 2.3x the current levy of US$3.5 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$19.5 million or 1.5x the current combined tax levy of US$13.3 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 3
TAX BASE HISTORY
(US$)

Tax Year	Estimated Population	Taxable Assessed Valuation	Taxable Value Per Capita	Gross Debt Outstanding	Debt to Taxable Value
2009	53,434	$ 1,687,628,528	$ 31,583	$ 17,910,714	1.1%
2010	54,258	1,725,724,269	31,806	24,365,000	1.4%
2011	55,224	1,714,363,936	31,044	23,900,000	1.4%
2012	55,658	1,845,976,847	33,166	30,495,000	1.7%
2013	56,462	2,021,608,086	35,805	29,940,000	1.5%
2014	57,031	2,147,704,137	37,659	27,460,000	1.3%
2015	57,658	2,160,648,623	37,474	25,890,000	1.2%
2016	57,989	2,276,997,310	39,266	24,725,000	1.1%
2017	58,216	2,331,664,354	40,052	22,290,000	1.0%
2018	58,805	2,441,163,497	41,513	21,125,000	0.9%

Table 3 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 2018, the median taxable property value per capita was US$41,513, compared to the national median of US$82,836 and a median of US$66,541 for A rated counties with a population of less than 100,000.[12] Also, as of 2018, the median debt to taxable value is 0.9%, compared to the U.S. median of 0.5% and a median of 0.6% for A-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 10.1% over the past 10 years, the assessed value of taxable property has increased 44.7%, growing at an average annual rate of 4.2%. 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 0.9%.

[12] Source: Moody's Investor Service, Local Government – US Medians, March 30, 2018, pages 6 & 12.

Figure 6
2018 ASSESSED VALUE BY PROPERTY TYPE

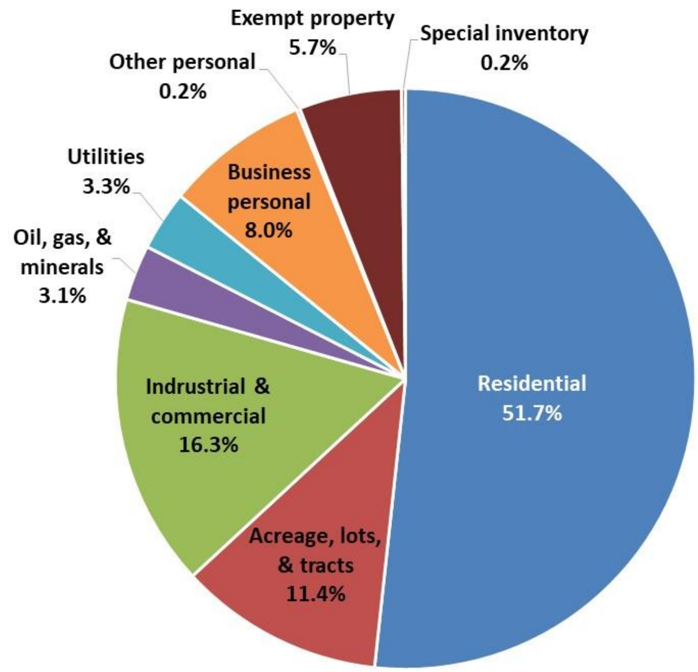


Figure 6 demonstrates that the County's tax base is heavily derived from the residential market and industrial and commercial market, accounting for 51.7% and 16.3%, respectively, of the assessed property value for 2018. There has been minimal volatility in the allocation of assessed value by type over the last five years, as the residential and industrial & commercial markets accounted for 47.3% and 14.1%, respectively, in 2014.

With such a heavy concentration of its tax base in residential properties, a depressed real estate cycle could have a negative impact on the overall tax base. Yet, historically, assessed property values in the 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 operates 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 4 below demonstrates the County's strong property tax collection history. The County had a property tax collection rate of 97.3% for 2017 and a steady average of 99% since 2009. A slight dip in collections in recent years, from 99.3% in 2015 to 97.3%

in 2017, can be attributed to cycle fluctuations as the County's property profile by type has remained stable over the past five years. 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 foreclosure the property to enforce personal liability for the tax.

Table 4
PROPERTY TAX COLLCECTION HISTORY

Tax Year	Tax Levy	% Total Collections
2009	6,782,579	99.1%
2010	6,935,686	100.9%
2011	8,777,543	100.3%
2012	8,346,969	98.3%
2013	8,836,318	97.5%
2014	9,440,061	105.0%
2015	10,335,170	99.3%
2016	10,911,207	97.7%
2017	11,938,121	97.3%

B. <u>Historical Analysis of the County</u>

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 2014 to 2018 is presented in Table 5 to provide an overview of the County's financial and operational performance.

Table 5
MAVERICK COUNTY GENERAL FUND FINANCIAL STATEMENTS
(US$ Millions)

BALANCE SHEETS					
	2014	**2015**	**2016**	**2017**	**2018**
Cash and cash equivalents	$ 1.99	$ 1.84	$ 1.99	$ 3.56	$ 6.64
Other current assets	3.26	3.57	3.68	2.61	3.16
Total assets	**$ 5.25**	**$ 5.41**	**$ 5.67**	**$ 6.17**	**$ 9.80**
Current liabilities	$ 9.66	$ 9.69	$ 9.75	$ 8.06	$ 8.19
Total liabilities	**9.66**	**9.69**	**9.75**	**8.06**	**8.19**
Restricted	5.18	5.12	1.10	0.50	0.51
Unassigned	(9.59)	(9.40)	(5.19)	(2.39)	1.10
Total fund balance	**(4.42)**	**(4.27)**	**(4.08)**	**(1.89)**	**$1.61**
Total liabilities & fund balance	**$ 5.25**	**$ 5.41**	**$ 5.67**	**$ 6.17**	**$ 9.80**

STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES					
	2014	**2015**	**2016**	**2017**	**2018**
Property taxes	$ 9.33	$ 9.93	$ 10.89	$ 11.59	$ 13.09
Sales taxes	2.56	3.02	2.51	2.45	2.68
Other revenue	2.10	1.97	2.22	3.75	6.61
Total revenue	**$13.98**	**$14.92**	**$15.62**	**$17.80**	**$22.39**
Maintenance and operations	11.58	12.55	14.02	14.87	15.88
Debt service	4.88	4.61	4.02	2.77	2.66
Total expenses	**$16.46**	**$17.16**	**$18.04**	**$17.64**	**$18.55**
Other financing sources (uses)	2.26	2.39	2.61	2.03	(0.33)
Net change to fund balance	**$ (0.21)**	**$ 0.14**	**$ 0.19**	**$ 2.19**	**$ 3.51**
Beginning fund balance	$ (4.21)	$ (4.42)	$ (4.27)	$ (4.08)	$ (1.89)
Ending fund balance	$ (4.42)	$ (4.27)	$ (4.08)	$ (1.89)	$ 1.61

Table 6
MAVERICK COUNTY FINANCIAL RATIOS

	2014	**2015**	**2016**	**2017**	**2018**
Current ratio	0.54	0.56	0.58	0.77	1.20
Fund balance as % of revenue	-31.6%	-28.6%	-26.1%	-10.6%	7.2%
Cash balance as % of revenue	14.2%	12.3%	12.7%	20.0%	29.7%

As shown in Table 5, the County's primary source of operational revenue is derived from the receipts of ad valorem property taxation, accounting for 58% of revenue in 2018 and 70% in 2016.

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 two years. During fiscal years 2014-2016, 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$4.08 million in 2016 to a positive balance of US$1.61 million in 2018. Moreover, the cash balance increased from US$1.99 million to US$6.64 million during the same period.

Another positive indicator is the growth trend in property tax revenue, with an average annual growth rate of 8.8% since 2009 and an increase of 12.9% in 2018 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 2018, the County has a General Fund balance as a percentage of revenue of 7.2% and a cash balance as a percentage of revenues of 29.7%. These two indicators climbed to a healthy level relative to BBB-rated counties with a population of less 100,000, which is 8.1% for the fund balance as a percentage of revenues and 22.5% for the cash balance as a percentage of revenues.[13]

The County is in a healthier financial position now compared to the previous four years. Since 2014, revenue has increased by 60.1% or at an average annual rate of 12.5%, while maintenance and operation expenses have increased 37.1% or at an average annual rate of 8.2% and debt service has decreased from US$4.88 million to US$2.66 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. Historical Analysis of the MCSWA

In the event the levied property taxed are insufficient to cover debt service, the County will transfer surplus revenue from the Solid Waste Management System, which has been pledged for that purpose. The annual financial reports of the MCSWA from 2014 to 2018 are presented in Table 7 to provide an overview of its financial and operational performance.

[13] Source: Moody's Investor Service, Local government – US Medians, March 30, 2018, page 12.

Table 7
MCSWA FINANCIAL STATEMENTS
(US$ Millions)

BALANCE SHEETS	2014	2015	2016	2017	2018
Current assets	$ 1.64	$ 2.43	$ 2.35	$ 1.90	$ 2.06
Fixed assets	8.13	7.29	7.27	6.72	6.58
Total assets	**$ 9.77**	**$ 9.71**	**$ 9.62**	**$ 8.63**	**$ 8.64**
Current liabilities	$ 0.74	$ 0.41	$ 0.56	$ 0.51	$ 0.55
Non-current liabilities	2.65	2.95	3.66	3.51	4.10
Total liabilities	**3.39**	**3.36**	**4.22**	**4.02**	**4.66**
Net position	**6.39**	**6.35**	**5.40**	**4.60**	**3.98**
Total liabilities & net position	**$ 9.77**	**$ 9.71**	**$ 9.62**	**$ 8.63**	**$ 8.64**

INCOME STATEMENTS	2014	2015	2016	2017	2018
Operating revenue	$ 1.91	$ 1.80	$ 1.69	$ 1.65	$ 1.76
Sales taxes	2.54	3.00	2.47	2.38	2.59
Total revenue	**4.45**	**4.80**	**4.16**	**4.03**	**4.36**
Operating expenses	**1.36**	**3.12**	**2.92**	**2.78**	**2.81**
Income before transfers	**3.09**	**1.68**	**1.24**	**1.25**	**1.54**
Transfers out to county	2.23	1.71	2.20	2.05	2.17
Net change to net position	**$ 0.86**	**$ (0.03)**	**$ (0.95)**	**$ (0.80)**	**$ (0.62)**

The MCSWA has two primary sources of revenues. One is derived from landfill service tipping fees, and the second is from the collection of a ½ cent sales tax for the operation of the landfill. The sales tax is collected by the County and transferred to the MCSWA. Table 7 illustrates historical income before transfers out to the County.

Since the County issues debt on behalf of the MCSWA, similar to the debt structure of the proposed Project, the MCSWA transfers cash out of its net position to the County General Fund. Over the past five years, the MCSWA has transferred out on average, a little more than $2 million per year. Of the surplus revenue transferred to the General Fund, roughly 60% is pledged under existing debt obligations. As a result, the MCSWA does not have the capacity to cover additional debt obligations. Consequently, the principal source of payment of the Loan is the ad valorem property tax, while the surplus of net revenue from the Solid Waste Management System will serve as an additional source in the event the levied property taxes are insufficient to cover debt service. Because the ad valorem property tax is considered to be a very reliable source of payment, NADB did not include any revenue from the Solid Waste Management System in the financial projections of the Project.

D. 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 County's projected annual rollback tax rate, which allows the amount of taxes levied the prior year for M&O expenses plus eight percent.
- *Current debt*: Based on the County's outstanding debt.

Table 8 shows projected cash flows for the duration of the NADB Loan.

Table 8
PROJECTED CASH FLOW
(US$ Thousands)

Year	Property Tax Revenue	M&O Expenses	Cash Available for Debt Service	Debt Service	Change in Fund Balance	DSCR
2020	$ 14,700	$ 10,541	$ 4,159	$ 4,125	$ 1	1.01x
2021	14,300	11,384	2,916	2,867	1	1.02x
2022	15,200	12,295	2,905	2,861	1	1.02x
2023	16,200	13,278	2,922	2,846	1	1.03x
2024	17,000	14,340	2,660	2,587	1	1.03x

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

E. Project Debt Service Coverage Ratio (DSCR)

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

Pursuant to NADB loan policies and given the nature of the 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:

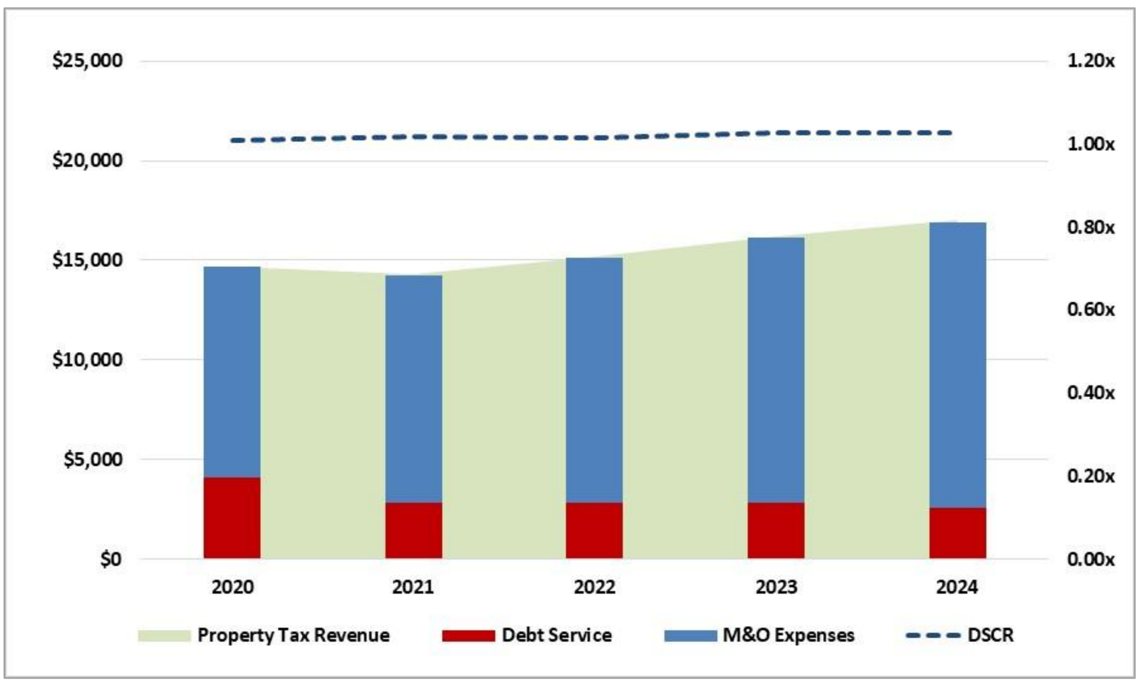
$$DSCR = \frac{(Revenues - Operational\ Expenses)}{(Principal + Interest)}$$

=

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

Figure 7 illustrates the projected distribution of Project cash flows.

Figure 7
PROJECTED CASH FLOW ANALYSIS
(US$ Thousands)



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

The typical debt service coverage ratio for a municipal entity is 1.00x. The 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. Quantitative Project Risks

1. *Increase in Total Project Cost*. An increase in Project costs is not anticipated; however, in the event there is unexpected increase in the cost, it will be covered by a 10% contingency reserve built into the Project cost.

2. *Increase in Operating Expenses*: 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.

3. *Decrease in Revenue*: Since the source of payment for the Loan is the revenue deriving from a property tax assessed and levied by the 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 of 99% for all taxes from 2009 to 2018 and a rate of 97.5% for the last available year. As an additional safeguard against a decline in tax collections, the County maintains a debt service fund, which had a balance of US$470,757 at the close of fiscal year 2018 and can be used to address any shortfalls in the tax collection. Finally, the County has never defaulted on the payment of its debt obligations.

4. *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 2019 the total tax rate is 54.34 cents per US$100 of assessed value and 14.36 cents is pledged to an interest and sinking fund. Under the base case scenario, which assumes no growth in taxable assessed valuation and includes the amortization schedule of the proposed Loan, the pledge to the interest and sinking fund will increase from 14.36 to 16.71 cents per US$100 of assessed value.

B Qualitative Project Risks

1. *Financial/Administrative*: The financial position of the County is weak; however, the last two 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 2018, the County had improved its net position with a positive balance of US$1.61 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.

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. The unemployment rate in the county is approximately 8.5%.[14] The poverty level for Maverick County is estimated at 27%, considerably higher than the 14.7% poverty level estimated for the state.[15] Area wealth levels as measured by per capita income are also very low. Nevertheless, since 2009, the assessed value of taxable property has increased 44.7%, growing at an average annual rate of 4.2%, while the County has maintained excellent property tax collection rates, which have averaged 99%.

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

4. *Technical*: The technical risk related to the Project is low as the key milestones have already been completed. Maverick County owns the property and rights-of way, and no additional land or easements are required to implement the Project. Additionally, the design has been finalized, all procurement processes have been carried out and all necessary authorizations have been obtained. The Project Sponsor is ready to initiate construction once the financing has been approved. Moreover, MCSWA, the landfill operator, has ample experience having operated two cells in the landfill since late 2010. The landfill is in compliance with TCEQ regulations and has demonstrated good management and operations since it opened.

4. PUBLIC ACCESS TO INFORMATION

4.1 Public Consultation

NADB published the draft Certification and Financing Proposal for a 30-day public comment period beginning April 17, 2019. The following Project documents are available upon request:

- Municipal Solid Waste Permit No. 2316 issued by the Texas Commission on Environmental Quality on June 14, 2011; and
- Maverick County El Indio Landfill Cell 3 Liner Construction Project Bidding Documents and Specifications, 2019.

The public comment period ended on May 17, 2019, with no comments received.

[14] Source: U.S. Bureau of Labor Statistics.
[15] Source: U.S. Census Bureau, QuickFacts.

4.2 Outreach Activities

The MCSWA Board of Directors meets on a regular basis to discuss landfill operations and activities. Meetings are held in compliance with the Open Meetings Act, requiring that regular meetings of the Board be posted in a place readily accessible to the general public at least 72 hours prior to the meeting. The Board meets at least once a month, and the proposed Project was discussed by the Board on both July 18, 2018 and March 7, 2019.

Additionally, the procurement process for the construction of the Project was published in the Eagle Pass News Gram on February 5 and 12, 2019.

NADB also conducted a media search to identify potential public opinion about the Project; however, no specific articles or references to the Project was found. No public opposition to the Project has been detected.

5. RECOMMENDATION

Certification Criteria Compliance

The Project falls within the eligible sector of solid waste management and is located within the border region, as required under the NADB Charter. The 30-day public comment period ended on May 17, 2019, with no comments received. The project review performed by the NADB Chief Environmental Officer confirms that the Project complies with all the certification requirements, and there are no pending activities required for compliance.

Funding Criteria Compliance

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, as well as complies with all CAP eligibility criteria. Therefore, NADB proposes providing a market-rate loan for up to US$2.92 million to Maverick County, Texas, in accordance with the terms and conditions proposed in Annex B, along with a CAP grant for up to US$150,000 in accordance with the terms and conditions proposed in Annex C.

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 and CAP grant.