CERTIFICATION AND FINANCING PROPOSAL

REFINANCING OF EXISTING DEBT
FOR MAVERICK COUNTY, TEXAS

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EXECUTIVE SUMMARY

REFINANCING OF EXISTING DEBT FOR MAVERICK COUNTY, TEXAS

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 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 accounts for approximately 51% of the County's total budgeted expenses for 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$1.0 million 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 be directly transferred to county residents as it 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 to Benefit: 58,722 residents of Maverick County, Texas.[3]

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[1] Approved by the Board of Directors of NADB on its virtual meeting in May 2020. The COVID-19 Recovery Program is intended to support border communities suffering the economic, health and social impacts of the COVID-19 pandemic, while at the same time promoting continued environmental improvement in the US/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.

Project 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.
Project Borrower:	Maverick County, Texas.
NADB Loan:	US$18 million, through the NADB COVID-19 Recovery Program.

CERTIFICATION AND FINANCING PROPOSAL

REFINANCING OF EXISTING DEBT FOR MAVERICK COUNTY, TEXAS

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$1.0 million 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. It 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

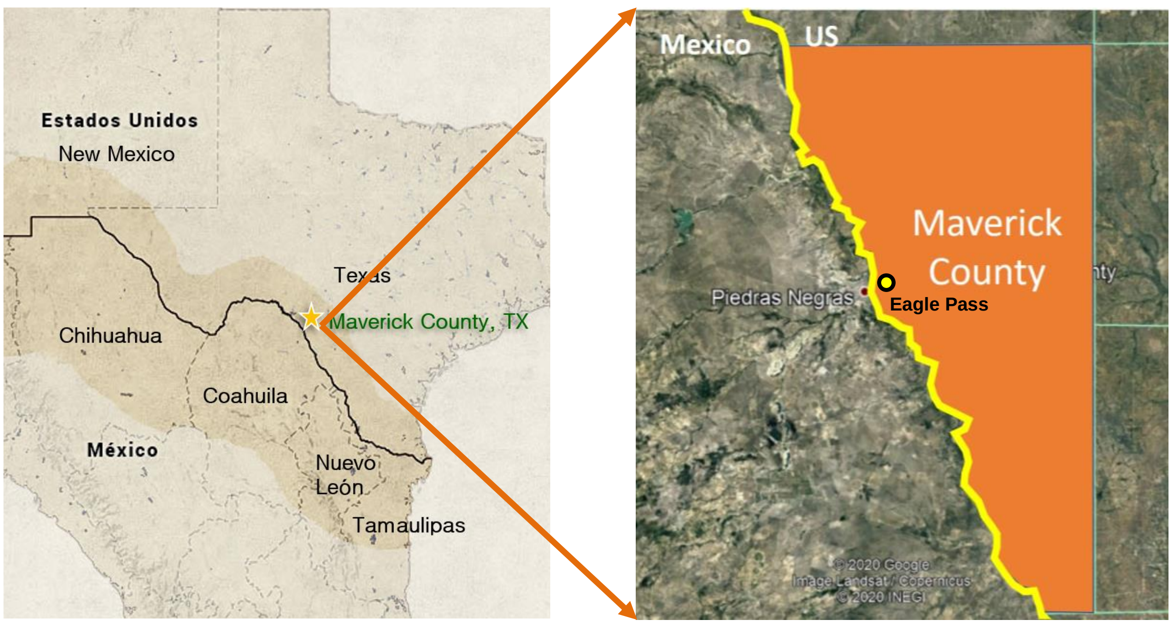
The Project complies with the requirements of the NADB COVID-19 Recovery Program, as the sponsor is a public entity that provides public services to border residents and maintains and operates public infrastructure, and its mandate is aligned with the NADB mission. The services provided by the County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

[4] Approved by the Board of Directors of NADB on its virtual meeting in May 2020. The COVID-19 Recovery Program is intended to support border communities suffering the economic, health and social impacts of the COVID-19 pandemic, while at the same time promoting continued environmental improvement in the US/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 25.9% in 2018, 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. This Program was approved by the Board of Directors of NADB and is intended to support border communities suffering the economic, health and social impacts of the COVID-19 pandemic, while at the same time promoting continued environmental improvement in the US/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 be directly transferred to 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.

Current COVID 19 Situation

Nationwide in the U.S.

Since its outbreak in March 2020, the virnus 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 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

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

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]

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 and the public health and mitigating economic impacts of COVID-19 on different

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

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 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 tax collection—the primary source of revenue for counties in most states—a fairly stable source of revenue. Many counties are extending the deadline for residents to pay property taxes or waiving late fees, delaying primary annual income flow and causing anxiety as expenditures rise.

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[13] Source: U.S. Department of 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).

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

As of July 25, 2020, Maverick County has reported 1,440 COVID-19 infections with a total death toll of 26 individuals, with the steepest increase occurring during July 2020.[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 expected to save the County roughly US$1.0 million 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.

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[17] Source: USAFacts (https://usafacts.org/visualizations/coronavirus-covid-19-spread-map/state/texas/county/maverick-county).
[18] Source: Maverick County (https://co.maverick.tx.us/).
[19] Source: U.S. Bureau of Labor Statistics.
[20] Source: Economic Research Federal Reserve Bank of St. Louis.

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 one or more series of the County's Certificates of Obligation in order to approve the refinancing debt.[21]

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. Existing Conditions

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

B. Project Impacts

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 significantly reduce the County's debt service obligations. These savings will be directly transferred to 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

[21] The Certificates of Obligation Act of 1971 allows some governmental entities—such as cities, counties and certain special districts—to issue debt without voter approval to fund any public project. While Certificates of Obligation provide local governments with a flexible financing option to handle unforeseen circumstances or emergency situations, they are not restricted to that use.

energy efficiency, air quality and community infrastructure improvements 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

The Sponsor has requested a NADB loan to refinance US$18 million in existing debt. Based on a thorough analysis of both the Project and the Sponsor, NADB has determined that the Project meets all COVID-19 Recovery Program criteria and proposes providing a loan for up to $18,000,000 to Maverick County. Table 2 shows a breakdown of the uses and sources of funding.

Table 2
USES AND SOURCES OF FUNDS
(USD)

Uses	Amount	%
Existing County 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**

The loan is expected to be financed through a debt instrument that is available to local governments in Texas. The source of payment for the loan will be an ad valorem tax on all taxable property within the county, at a rate sufficient, within the limit prescribed by law, to cover debt service payments. The levied ad valorem tax will be assessed and collected each year against all property appearing on the recently approved city tax rolls, and the revenue collected will be irrevocably pledged and deposited to an interest and sinking fund for the payment of the NADB loan.

NADB's preliminary analysis verified that the Project Sponsor has the legal authority to contract the financing and levy an ad valorem tax on taxable property for the payment of financial obligations. Furthermore, the proposed Project is located within the U.S.-Mexico border region served by NADB, is being sponsored by a public entity and is eligible for NADB financing through its COVID-19 Recovery Program.

Considering the Project's characteristics and based on the financial and risk analysis performed, the proposed Project is considered to be financially feasible and presents an acceptable level of risk.

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 July 30, 2020.

4.2 Outreach Activities

On July 13, 2020, the Commissioners Court of Maverick County issued and published on its website a Notice of Intention to Issue the Certificates of Obligation to finance the Project.

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