

# TEXAS LEVERAGE FUND



## **Policy Description:**

Introduced in 1992, the mission of the Texas Leverage Fund (TLF), [http://governor.state.tx.us/files/ecodev/TLF\\_Guidelines.pdf](http://governor.state.tx.us/files/ecodev/TLF_Guidelines.pdf), is to be a customer driven program, designed to provide communities a way to leverage local funds with state funds to assist small business expansions, business recruitment and export opportunities to position Texas as a globally competitive economic region.

The Texas Leverage Fund allows Economic Development Corporations ("EDCs") to leverage their economic development sales and use tax receipts collected by authority of the Act ("Tax Receipts") by providing an alternative source of easy to access capital with favorable terms.

Communities may leverage future sales tax revenues to support job retention or creation. Available for interim, long-term or gap financing, TLF loans provide flexible financing terms to match the unique needs of communities, with maturities ranging from 5, 10 and 15 years, with no pre-payment penalty.

Future sales tax revenues serve as collateral for loan repayment with required debt service coverage ratios specified in the Texas Leverage Fund Program Guidelines. Pledged tax collections not needed for actual debt service are available for other projects.

Loan proceeds must be used to pay eligible "costs" of "projects" as defined by the Development Corporation Act of 1979 (the Act), as amended. Under Section Type A of the Act, examples of eligible costs include land, buildings, machinery and equipment for manufacturing and industrial operations. Under Section 4B of the Act, examples of eligible costs include sports, athletic, entertainment and public park purposes and events.

## **Eligibility Criteria:**

- Land, building, equipment, facilities, and improvements for development or expansion;
- Infrastructure improvements necessary for economic development tied to a specific business or documented as part of an economic development plan;
- Improvements in direct support of revitalizing downtown in order to increase tourism activities;
- Convention centers and related improvements;

- Auditoriums, amphitheatres, concert halls, parks and park facilities, open space improvements, stadiums/ballparks, exhibition facilities, and related automobile facilities.

**How to Apply:**

- The purpose of the financial assistance and the use of funds must comply with all applicable requirements of the Act. EDCs are permitted to use proceeds of the loan from the Economic Development and Tourism Division (the "Division") to the EDC ("Program Loan") to fund any projects. Further, funds must be used for eligible "costs" as defined in the Act.
- Participating cities must have a general obligation or a point in time rating of Baa or better by Moody's Investors Service, or an equivalent rating from a nationally recognized rating service. If a City has no rating or a rating of less than Baa, the Debt Service Coverage Ratio based on total Projected Debt Service must exceed the ratios set forth in these Guidelines by a factor of 0.50 as of the closing date.
- No EDC in a City with a general obligation bond rating of Baa or better shall have a single project greater than three million dollars (\$3,000,000). No EDC in a City with a general obligation bond rating less than Baa or no rating shall have a single project more than two million dollars (\$2,000,000).
- No Program Loan may be amortized for a period longer than fifteen (15) years.
- Participating cities must not have experienced a **"Largest Four Year Sales Tax Decline"** of greater than ten percent (10%) as determined by the following formula:

$$\frac{(\text{HIGH} - \text{LOW}) \times 100}{\text{HIGH}}$$

Wherein "LOW" shall mean the lowest sum of total sales tax revenue receipts collected by the City for any calendar year (adjusted for changes in sales tax rates) during the four (4) year period preceding the date of calculation, as determined from the most recent June 30 or December 31 reports, as applicable, for which sales tax data is available, and "HIGH" shall mean the highest sum of sales tax revenue receipts collected for any calendar year (adjusted for changes in sales tax rates) during this same period and which occurred in a calendar year preceding the calendar year in which the LOW occurred.

- All Program Loans must be secured by a first lien pledge of Tax Receipts sufficient, as of the closing date, to comply with a "**Debt Service Coverage Ratio**" based on loan term and the "**Largest Fifteen Year Sales Tax Decline**".
- All Program Loans must be on a parity with or superior to any other obligations secured by the Tax Receipts and owing or incurred while any portion of the Program Loan is outstanding to insure that the Division will have no less than an equal claim to all pledged Tax Receipts.
- If Parity Obligations exist or are incurred during the term of the Program Loan, the Debt Service Coverage Ratio based on total Projected Debt Service must exceed the ratios set forth above by a factor of 0.1 as of both the closing date of the Program Loan and the closing date of any Parity Obligations subsequently incurred.
- The Program Loan shall be cross-defaulted with all Parity Obligations and the Division must be notified in advance of the issuance of any Parity Obligations.
- The Program Loan shall bear a **variable** interest rate equal to the "prime rate" as quoted in the Wall Street Journal, Southwest Edition.
- The Program Loan shall provide for equal monthly principal and interest payments, payable by wire transfer on the first business day of each month. Payment amounts shall be adjusted by the Division upon a change in interest rate or a prepayment to amortize the loan over its original term.
- All repayments to the EDC in excess of the scheduled payments including prepayments, insurance proceeds not reinvested in the collateral, or proceeds from the disposition of an asset shall be used by the EDC to prepay a like principal amount on the Program Loan.
- The EDC must provide the Division with an opinion of counsel to the EDC, in prescribed form and substance, to the effect that the requisite tax election was held, that no litigation has been filed relating to such election, and that the EDC was formed in accordance with statutory requirements and is authorized to enter into the loan agreement.

**Local Action Required:**

Please contact the Corpus Christi Regional Economic Development Corporation at (361) 882-7448 to request the application or visit <http://www.ccredc.com/>

**Additional Resources:**

Economic Development

[www.cctexas.com/economicdevelopment](http://www.cctexas.com/economicdevelopment)

Development Services

[www.cctexas.com/developmentservices](http://www.cctexas.com/developmentservices)