TEXAS LEVERAGE FUND

PROGRAM GUIDELINES

Program Description:
The Texas Leverage Fund, introduced in 1992 as a community driven program, allows Economic Development Corporations ("EDC"), established pursuant to Section 4A and/or 4B of the Development Corporation Act of 1979 ("Act"), to leverage the economic development sales and use tax to expand economic development through business expansions, business recruitment, and exporting. The program offers favorable terms designed to give communities quick access to capital to finance their economic development projects. Program participants must comply with the project eligibility requirements established by the Act and these guidelines which are intended to ensure the continuity of the Program and to expedite the review process.

Program Authority

- *Master Resolution/First Supplemental Resolution*
  The Master Resolution was adopted on September 9, 1992, and established a $300 million Taxable Commercial Paper Note Program for the purpose of providing funds for economic development loan programs. The First Supplemental Resolution initiated the program for an aggregate principal outstanding amount of $25 million.
- *State of Texas Constitution, Article III, §52-a*
- *Vernon's Texas Civil Statutes, Title 83, Article 5190.6,Development Corporation Act of 1979*
- *Texas Administrative Code, Title 10, Part 5, Chapter 181*

General Program Requirements:

1) The purpose of the loan 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 Office of Economic Development & Tourism ("Division") to fund any project as defined in the Act and as approved by the voters.

2) Participating cities will incur a factor of 0.50 on the Debt Service Coverage Ratio (DSCR) requirements if they have an underlying rating below investment grade by a Rating Agency.

3) Participating cities shall not have a total program obligation greater than five million dollars ($5,000,000). This may be the cumulative total of multiple projects.

4) Program Loans may be amortized for five, ten or fifteen years. No loan may be amortized for any period greater than fifteen years.

5) Participating cities must not have experienced a sales tax decline greater than ten percent (10%) in the preceding 4 years.

6) All Program Loans are secured by a first lien pledge of tax receipts sufficient, as of the closing date, to comply with a Debt Service Coverage Ratio ("DSCR") based on the loan

term and the "Largest Fifteen Year Sales Tax Decline" as determined by the charts set forth below:

For cities with an underlying rating above investment grade:

	Debt Service Coverage Ratio for Loans with Terms up to:		
Largest Fifteen Year Sales Tax Decline	**5 Years**	**10 Years**	**15 Years**
Less than 10%	1.6	1.7	1.8
10% - 20%	1.7	1.8	1.9
20% - 30%	1.9	2.0	2.1
30% - 35%	2.0	2.1	2.2
35% plus	2.4	2.5	2.5

For cities with an underlying rating below investment grade:

	Debt Service Coverage Ratio for Loans with Terms up to:		
Largest Fifteen Year Sales Tax Decline	**5 Years**	**10 Years**	**15 Years**
Less than 10%	2.1	2.2	2.3
10% - 20%	2.2	2.3	2.4
20% - 30%	2.4	2.5	2.6
30% - 35%	2.5	2.6	2.7
35% plus	2.9	3.0	3.0

7) Participating cities must have Program Loans on 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 ensure that the Division will have no less than a parity claim at the most senior level to all pledged tax receipts.

8) If parity obligations exist or are incurred during the term of the Program Loan, the DSCR 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.

9) The Division must be notified in advance of the issuance of any parity obligations, and that debt must be cross-defaulted with all parity obligations.

10) All Program Loans shall bear a variable interest rate equal to the Fed Funds Rate as noted by the Federal Reserve Board plus 3%. The Division may, at its discretion, provide discounted rates for program participants with a credit rating of A (S&P or Moody's) or better. The Division has the ability to create a tiered structure on the chargeable interest on loans by utilizing the rate of a community, from time to time as program staff deem necessary.

11) All Program Loan payments are 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, and amortized over the original term of the loan.

Program Diligence

1) Diligence shall be conducted on every application, which shall include but not be limited to the following areas:
    a. TLF Application, related correspondence, and documents
    b. Annual Financial Statement Analysis
    c. Sales Tax Revenue Review and Analysis
    d. Parity Debt Analysis
    e. Leverage Analysis
    f. Credit Review
    g. Administrative Review

2) Annual Reporting:
    a. Participating IDC Update form
    b. Participating IDC Financial Statement Analysis
    c. Sales Tax Income Review
    d. Parity Debt Review
    e. Credit Review

Late payment and/or Default

The following steps shall be taken in the event of default:

1) After the 7th day of the month, if payment is not received, the IDC shall be notified by the Division of payment delinquency.

2) At 30 days, if payment is not received, the default rate shall apply effective retroactively to the initial day of delinquency. Local elected officials may be contacted.

3) At 60 days, the Division may issue a warning of lien enforcement.

4) At 90 days, the Division may enforce lien as per loan agreement and UCC filing.

Definitions

Debt Service – cash required in a given period, usually one year, for payments of interest and current maturities of principal on outstanding debt.

Debt Service Coverage Ratio (DSCR) – is the ratio of

$$\frac{\text{Estimated Tax Receipts}}{\text{Projected Debt Service}}$$

Default Rate – means the interest rate of the loan participant plus a penalty rate of three percent (3%) applied upon being 60 days overdue on a payment.

Division – means the Office of Economic Development & Tourism

Estimated Tax Receipts – the sum of the lowest twelve (12) consecutive months, of the eighteen (18) months immediately preceding the date of determination thereof, of Tax Receipts of the EDC. If such tax has been collected for less than eighteen (18) months, an estimate of the Tax Receipts which would have been collected had such tax been in effect will be used.

IDC – means an Industrial Development Corporation established pursuant to Section 4A or 4B of Article 5190.6 of the Development Corporation Act of 1979.

Largest Fifteen Year Sales Tax Decline - is a percentage decline in the total sales tax receipts of a participating city calculated as follows:

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

Wherein "LOW" means the lowest sum of sales tax revenue receipts collected by the city for any calendar year (adjusted for changes in sales tax rates) during the fifteen (15) year period preceding the date of calculation, as determined from the most recent June 30 or December 31, as applicable, for which sales tax data is available, and "HIGH" means 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.

Parity Obligations - are debt or other obligations, existing or incurred during the term of the Program Loan, secured in whole or in part by and payable from the Tax Receipts on a parity with the Program Loan and giving the holder an equal and ratable claim to the proceeds of the Tax Receipts.

Projected Debt Service – means the annual Debt Service of the amount borrowed by a Participating IDC.

Rating Agency – means S&P or Moody's

Underlying Rating –means the rating a rating agency's published assessment of a particular debt issue's credit quality absent credit enhancement. S&P publishes it as its SPUR rating, and Moody's publishes it as underlying.