

City of League City

Capital Recovery Fee Deferral Policy

January 2026

Table of Contents

I. Purpose.....	3
II. Legal Authority.....	3
III. Definitions	4
IV. Qualification Pathways and Criteria.....	4
A. Common Requirements (All Pathways)	4
B. Pathway A: Administrative Deferral Track	5
C. Pathway B: Economic Development Track	7
D. Additional Evaluation Factors (Both Pathways)	8
V. Payment Terms	9
A. Commencement of Deferral Period.....	9
B. Annual Payment Due Dates	9
C. Interest on Deferred Fees	9
D. Prepayment.....	9
VI. Security Requirements	9
A. Security Timing.....	9
B. Developer Capacity Demonstration Required at Application	9
C. Prohibition on Certificate of Occupancy without Security	10
D. Acceptable Forms and Amounts.....	10
E. Annual Renewal and Maintenance	10
F. Conditions for Drawing Security.....	10
VII. Transfer and Sale of Property	10
VIII. Default and Remedies.....	11
IX. Application and Approval Process.....	11
A. Pre-Application Consultation	11
B. Application Requirements.....	11
C. Review Timeline.....	11
X. Program Administration	12
XI. General Provisions.....	12

Exhibit A	13
Exhibit B	17

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League City's Capital Recovery Fee Deferral Policy

Adopted: (Date)

I. Purpose

The purpose of this policy is to establish a program whereby the City of League City may defer payment of Capital Recovery Fees for qualifying commercial projects. This Policy provides two (2) qualification pathways designed to:

- Address market barriers by providing cash flow relief for developers undertaking high-quality commercial projects.
- Support both smaller high-quality projects and major economic development initiatives.
- Attract and retain commercial development that generates substantial tax base and quality employment.
- Enhance League City's competitive position in the regional development market.
- Provide streamlined administrative relief for quality community-serving development.
- Support projects that elevate League City's economy and overall quality of life.

This Policy does not constitute a waiver, reduction, or rebate of Capital Recovery Fees. All deferred fees must be repaid in full according to the terms established herein.

II. Legal Authority

This Policy is administered under the following statutory authorities:

1. **Primary Authority:** Texas Local Government Code Chapter 395.016(d), which allows for collection of CRFs to be set at (a) timing of the plat, (b) connection to system, (c) issuance of permit, or (d) at Certificate of Occupancy. Texas Local Government Code Chapter 395.018, which authorizes political subdivisions to enter into agreements with property owners regarding the time and method of payment of impact fees.
2. **Secondary Authority:** Texas Local Government Code Chapter 380.001, which authorizes municipalities to establish economic development programs, including programs for making loans and grants, to promote economic development and stimulate business and commercial activity. This authority applies when deferral is combined with other economic development incentives.
3. **Additional Authority:** Development Agreements authorized by applicable law and League City's home rule charter.

Final approval of any deferral under this Policy shall require execution of a Development Agreement or Chapter 380 Agreement approved by the City Council, except where City Manager approval authority is specified.

III. Definitions

- **Capital Recovery Fees (CRFs):** Fees charged to new projects for the purpose of recouping the costs of providing infrastructure capacity to serve those projects.
- **Developer:** An individual or entity undertaking a project within the city limits of League City.

IV. Qualification Pathways and Criteria

This Policy provides two (2) distinct qualification pathways for CRF deferral:

- **Pathway A (Administrative Deferral Track):** Streamlined deferral for high-quality commercial projects that enhance community character and economic vitality.
- **Pathway B (Economic Development Track):** Enhanced deferral for major economic development projects that meet Economic Development Investment Policy thresholds and may be combined with Chapter 380 incentives.

Meeting the qualification criteria in this Section does not entitle any project to approval. All deferrals under this Policy are entirely discretionary, and the City Manager or City Council may deny any application for any reason or no reason, even if all technical requirements are satisfied. The City reserves the right to determine, in its sole discretion, whether a project represents the type and quality of development the City wishes to support through this program.

A. Common Requirements (All Pathways)

Regardless of pathway, all projects must satisfy the following requirements:

1. **Comprehensive Plan Compliance:** Project must comply with all applicable provisions of League City's Comprehensive Plan, Master Plans, and Strategic Goals.
2. **Zoning Compliance:** Project must not require discretionary zoning relief (variance or Planned Development amendment) that indicates fundamental non-conformity with adopted plans. A Special Use Permit for an otherwise permitted use does not disqualify a project.
3. **Good Standing:** Developer must have no delinquent ad valorem taxes owed to the City and no outstanding code violations or unresolved permit violations on any property owned within League City.

4. **But For Requirement:** Developer must demonstrate that the CRF deferral is necessary to make the project financially feasible or that the project would be substantially delayed or reduced in scope without the deferral.
5. **Pre-Development Status:** Projects that have already pulled a building permit, executed a lease, or started construction may not be considered for deferral unless extraordinary circumstances exist as determined by the approving authority.
6. **Security Requirement:** All projects must provide acceptable security as specified in Section VI of this Policy.

B. Pathway A: Administrative Deferral Track

Purpose and Scope

This pathway provides streamlined CRF deferral for quality commercial projects that enhance League City's economic vitality, community character, and quality of life but do not reach the thresholds required for the Economic Development Track. This administrative deferral is authorized under Chapter 395.018's authority to establish payment timing agreements.

Minimum Qualification Thresholds

To qualify for Pathway A, a project must meet ALL of the following minimum thresholds:

1. Minimum Investment:

Pathway A projects must meet all of the following minimum thresholds:

- **New Business:** Minimum \$1,000,000 total project investment.
- **Business Expansions:** Minimum \$1,000,000 investment which represents at least a 25% increase over current assessed value of existing improvements.
- **CRF size:** Total Capital Recovery Fees for the project, before any deferral, must be \$200,000 or less. Projects with total CRFs greater than \$200,000 are not eligible for Pathway A and may only be considered under Pathway B.
- **Project Type:** Commercial, Office, Medical, Restaurant, Entertainment, Retail, or Mixed-Use Development.
- **Development Quality:** Project must demonstrate high quality development standards including but not limited to: (a) superior architectural design and building materials, (b) comprehensive landscaping and site design, (c) consistency with or enhancement of community character, and (d) attention to pedestrian amenities and the public realm.

- **Economic Benefit:** Project must demonstrate measurable economic benefit through one or more of:
 - Generation of new ad valorem tax revenue
 - Generation of sales tax revenue
 - Creation of quality employment opportunities
 - Enhancement of community amenities or quality of life
 - Filling of identified market gaps or community needs

2. Deferral Terms for Pathway A

- **Maximum Deferral Amount:** Up to 100% of total CRFs, not to exceed \$200,000. The specific percentage of deferral approved shall be based on the project's demonstrated financial need, public benefit, and consistency with the City's economic development priorities.
- **Maximum Deferral Period:** Three (3) annual payments over four (4) years, commencing the year following Certificate of Occupancy (CO) or Temporary Certificate of Occupancy (TCO) issuance
- **Standard Repayment Schedule:**
 - First Payment: 25% of deferred amount due December 31st of year following CO/TCO issuance
 - Second Payment: 35% of deferred amount due December 31st of second year following CO/TCO issuance
 - Third Payment: 40% of deferred amount due December 31st of third year following CO/TCO issuance
- **Interest:** No interest accrues if payments are made on time.

3. Approval Authority for Pathway A

- **City Manager Authority:** Projects with total CRF deferral of \$100,000 or less may be approved by the City Manager after staff review and recommendation. City Manager may, at his discretion, refer any Pathway A application to City Council regardless of deferral amount.
- **City Council Authority:** Projects with total CRF deferral exceeding \$100,000 require City Council approval

C. Pathway B: Economic Development Track

Purpose and Scope

This pathway provides enhanced CRF deferral for major commercial projects that meet the rigorous thresholds established in League City's Economic Development Investment Policy. Projects under this pathway may also qualify for combination with other economic development incentives authorized under Chapter 380, including tax rebates, grants, and other financial assistance.

Mandatory Threshold Requirements

To qualify for Pathway B, a project must satisfy ALL of the following threshold requirements established in the Economic Development Investment Policy:

1. **Minimum Investment:** Project must meet or exceed the minimum investment thresholds specified in the most recent Economic Development Investment Policy.
2. **Return on Investment:** Project must demonstrate the minimum average Return on Investment over 10 years as specified in the most recent Economic Development Investment Policy.

Deferral Terms for Pathway B

- **Maximum Deferral Amount:** Up to 100% of total CRFs (no dollar cap)
- **Maximum Deferral Period:** Standard deferral is five (5) annual payments over six (6) years, commencing the year following Certificate of Occupancy (CO) or Temporary Certificate of Occupancy (TCO) issuance. For projects where total CRFs equal or exceed \$650,000, City Council may approve an extended repayment term of up to ten (10) years, with annual installments structured in the applicable agreement, provided that all deferred CRFs are paid in full no later than the 10th anniversary of the TCO/CO issuance.
- **Standard Repayment Schedule:** The following standard repayment schedule applies unless City Council approves an alternative schedule under the extended term provision above.

First Payment: 10% of deferred amount due December 31st of year following CO/TCO issuance

Second Payment: 10% of deferred amount due December 31st of second year following CO/TCO issuance

Third Payment: 20% of deferred amount due December 31st of third year following CO/TCO issuance

Fourth Payment: 30% of deferred amount due December 31st of fourth year following CO/TCO issuance

Fifth Payment: 30% of deferred amount due December 31st of fifth year following CO/TCO issuance

- **Interest:** No interest accrues if payments are on time.
- **Combination with Other Incentives:** May be combined with other Chapter 380 economic development tools including tax rebates, grants, fee waivers, and infrastructure improvements.

Approval Authority for Pathway B

- **City Council Authority Required:** All Pathway B projects requesting deferral amounts greater than \$100,000 require City Council approval.

D. Additional Evaluation Factors (Both Pathways)

For both pathways, the approving authority retains full discretion to approve, approve with conditions, or deny any application. In exercising this discretion, the approving authority will consider:

- Whether the project type represents the kind of commercial development the City wishes to encourage through economic development assistance, with particular consideration of architectural quality, site design, community benefit, and consistency with the City's vision for high-quality commercial growth.
- Location and strategic importance within the City's economic development priorities.
- Developer's track record, financial capacity, and demonstrated ability to complete similar projects.
- Associated community benefits, such as public amenities, infrastructure improvements, or enhanced public spaces.
- Extent to which project addresses identified market gaps or community needs.
- Competitive analysis shows need for incentive to secure project in League City.

V. Payment Terms

A. Commencement of Deferral Period

The deferral period commences on the date the final Certificate of Occupancy or Temporary Certificate of Occupancy is issued for the project. No payment is due in the calendar year in which the CO or TCO is issued. The first payment is due on December 31st of the calendar year following the year in which the CO or TCO is issued, regardless of the issuance date within that year.

B. Annual Payment Due Dates

Annual payments are due to the City by December 31 of each respective year. Payments must be made by certified check, wire transfer, or other method approved by the City.

C. Interest on Deferred Fees

Deferred CRFs shall not accrue interest during the deferral period, provided all scheduled payments are made on time and no default occurs. Upon default, compound interest shall accrue annually on all unpaid amounts at the higher of (A) 6% or (B) 2% above the effective Federal Funds Rate from the date of default.

D. Prepayment

A Developer may prepay all or any portion of deferred CRFs at any time without penalty. Upon full prepayment, the security required under Section VI may be released.

VI. Security Requirements

To ensure full payment of deferred CRFs, the Developer must provide security in one of the following forms, with amount and terms as specified:

A. Security Timing

Security must be provided at or before Certificate of Occupancy or Temporary Certificate of Occupancy issuance for both Pathway A and Pathway B projects.

B. Developer Capacity Demonstration Required at Application

While security is not required at permit, the application must include evidence of the developer's financial capacity to:

- Obtain the required security at CO/TCO
- Make scheduled deferral payments over the repayment period.

Acceptable evidence includes audited financial statements, bank letters, surety company letters indicating bonding capacity, parent company guarantees, or other documentation acceptable to the City.

C. Prohibition on Certificate of Occupancy without Security

The City shall not issue a CO or TCO for any project with deferred CRFs until the required security is in place and accepted by the City. The Development Agreement shall be recorded against the property prior to permit issuance, creating a covenant running with the land that obligates payment of deferred CRFs and prohibits occupancy without security.

D. Acceptable Forms and Amounts

- **Payment Bond:** Issued by a surety company authorized to do business in Texas and acceptable to the City, with a rating of A- or better from A.M. Best Company. Amount: 110% of total deferred CRF amount.
- **Letter of Credit:** Issued by a financial institution acceptable to the City, in a form approved by the City Attorney. Amount: 110% of total deferred CRF amount.
- **Cash Escrow:** Deposited with the City or in an escrow account with a financial institution acceptable to the City. Amount: 110% of total deferred CRF amount.

The security may be reduced proportionally as scheduled payments are made, provided no default has occurred and all payments remain current.

E. Annual Renewal and Maintenance

Security instruments must automatically renew annually or provide a minimum 90-day written notice to the City of non-renewal. If Developer fails to renew or replace security at least 30 days prior to expiration, the City may draw the full amount of security and apply it to outstanding CRF obligations.

F. Conditions for Drawing Security

The City may draw upon the security instrument if any scheduled CRF payment is more than 30 days past due, Developer fails to renew security, property is transferred without approval, or Developer materially breaches the Development Agreement.

VII. Transfer and Sale of Property

The obligation to pay deferred CRFs continues with the land. Upon sale or transfer of the land, Developer must either pay all remaining deferred CRFs in full or at least 45 calendar days prior to closing request in writing City approval for assumption.

Assumption requests shall be approved by the City Manager for Pathway A projects. Assumption requests for Pathway B projects shall be approved by City Council, provided that the City Manager may approve Pathway B assumptions if the remaining deferred balance is less than \$100,000. Failure to comply with these requirements constitutes immediate default.

VIII. Default and Remedies

Default occurs upon failure to make payments on time, failure to maintain security, unauthorized transfer, material breach of agreement, or material misrepresentation. Upon default, the City may declare entire balance due, draw security, record lien, pursue legal action, withhold permits, and exercise other remedies. Late fees accrue at 1.5% per month plus compounded interest at the higher of (A) 6% or (B) 2% above the effective Federal Funds Rate. Except for immediate defaults (transfer without approval, misrepresentation), City provides 30-calendar day cure period after written notice, during which the 1.5% per month late fee shall continue to accrue.

IX. Application and Approval Process

A. Pre-Application Consultation

Developers are required to schedule a pre-application meeting with the Economic Development Department to discuss pathway selection, project eligibility, required documentation, and evaluation process.

B. Application Requirements

Applications must be submitted using the form attached as Exhibit A, with all required documentation as specified for the selected pathway.

C. Review Timeline

- **Pathway A:** 45-day review period from receipt of complete application
- **Pathway B:** 60-day review period from receipt of complete application

The Economic Development Department will coordinate review with Development Services, Finance, and other departments, and prepare recommendations for the approving authority.

X. Program Administration

This Policy is administered by the Economic Development Department. The City Council reserves the right to amend, suspend, or terminate this Policy at any time, without affecting previously approved deferrals.

The maximum total amount of Capital Recovery Fee deferrals that may be approved in any calendar year under this Policy shall not exceed \$1,000,000 for Water CRFs, Wastewater CRFs, and Roadway CRFs each, for a combined maximum of \$3,000,000 in approved deferrals per calendar year. This cap applies to the aggregate dollar amount of deferrals approved during each calendar year (Jan. 1st through Dec. 31st), regardless of repayment schedules. Once the annual cap is reached for any CRF category, no additional deferrals for that category may be approved until January 1st of the following calendar year.

The City may combine CRF deferral with other economic development tools authorized by the Economic Development Investment Policy.

Before any agreement under this Policy that provides for deferral of Capital Recovery Fees is placed on a City Council Agenda or executed by the City Manager, the draft agreement and supporting financial analysis shall be submitted to the City's Chief Financial Officer (CFO) for review and written recommendation. The CFO shall complete the review within fifteen (15) business days of receiving a complete application package and shall provide written confirmation addressing: (1) Whether all eligibility and security requirements of this Policy are satisfied, including acceptable security for deferred CRFs; (2) Whether the projected cash-flow and budget impacts are consistent with the City's adopted financial policies and current fiscal capacity; (3) Whether the structure and terms of the deferral are consistent with applicable provisions of Texas Local Government Code Chapters 380 and 395; and (4) The CFO's recommendation regarding approval, conditional approval, or denial, with specific reasoning for any recommendation. The CFO's written review shall be included in the materials presented to the approving authority.

The Economic Development Department may submit materials to the CFO for review at any time during the staff review period to facilitate the timely completion of both reviews.

XI. General Provisions

This Policy creates no vested rights. All deferrals are discretionary. No deferral is effective until Development Agreement or Chapter 380 Agreement is executed and approved. All deferrals must comply with applicable law. In case of conflict, Economic Development Investment Policy controls Pathway B, and executed Development Agreements control over Policy provisions. If any provision is invalid, remaining provisions remain effective.

Exhibit A

Application for Capital Recovery Fee Deferral

The City of League City administers this Capital Recovery Fee (CRF) Deferral Program under authority of Texas Local Government Code Chapters 395 and 380. This program provides two qualification pathways: (A) Administrative Deferral Track for high-quality commercial projects, and (B) Economic Development Track for major projects meeting Economic Development Investment Policy thresholds.

Note: Applications are subject to annual program caps. Contact Economic Development Department to confirm available capacity before submitting application.

SELECT PATHWAY (check one):

- ☐ PATHWAY A - Administrative Deferral Track (up to 100% CRF deferral, 3 years)
☐ PATHWAY B - Economic Development Track (up to 100% CRF deferral, 5 years)

A. Developer & Project Information

Developer Name: _____

Developer Contact:

Name: _____

Title: _____

Company: _____

Address: _____

Phone: _____

Email: _____

Project Name & Address: _____

Parcel ID(s): _____

Project Type:

☐ New Business ☐ Business Expansion

Category (select all that apply):

☐ Research & Development ☐ Industry ☐ Office ☐ Medical

☐ Hotel/Tourism ☐ Destination Retail ☐ Restaurant ☐ Mixed-Use

Project Description:

B. Project Investment and Qualification

Total Project Investment: \$ _____

(For Expansion Projects) Current Assessed Value: \$ _____

Estimated Taxable Property Value at Completion: \$ _____

Estimated Annual Taxable Sales: \$ _____

Job Creation:

New Full-Time Jobs: _____ New Part-Time Jobs: _____

Average Wage or Salary for New Jobs: \$ _____

FOR PATHWAY B ONLY - Complete the following:

Estimated Annual Ad Valorem Tax Revenue: \$ _____

Estimated Annual Sales Tax Revenue: \$ _____

Estimated Annual Hotel Occupancy Tax Revenue: \$ _____ ☐ N/A

Projected Payback Period: _____ years (must be ≤ 10 for Pathway B)

Projected Average ROI over 10 years: _____ % (must meet min. for project type)

C. CRF Deferral Request

Estimated Capital Recovery Fees:

Water CRF: \$ _____

Wastewater CRF: \$ _____

Roadway CRF: \$ _____

Total CRF: \$ _____

Requested Deferral:

Percentage of Total CRF to Defer: _____ %

(Pathway A: up to 100%, max \$200,000 | Pathway B: up to 100%, no cap)

Dollar Amount of Deferral Requested: \$ _____

Proposed Security (select one):

- ☐ Payment Bond Surety: _____
- ☐ Letter of Credit Issuing Institution: _____
- ☐ Cash Escrow

D. But For Justification

Explain why CRF deferral is necessary for project feasibility. Address financial constraints, cash flow challenges, competitive considerations, and why the project would not proceed (or would be substantially delayed or reduced in scope) without deferral:

E. Required Attachments

ALL PATHWAYS - Submit the following:

- ☐ Site plan and survey
- ☐ Detailed project description with architectural renderings (if available)
- ☐ Economic impact summary (tax revenues, jobs, economic benefit)
- ☐ CRF estimate worksheet (provided by Development Services Department)
- ☐ Developer financial capacity documentation (select one):
- ☐ Audited financial statements (most recent 2 years) OR
- ☐ Federal tax returns (most recent 3 years) OR
- ☐ Letter of credit demonstrating financial capacity
- ☐ Developer track record (previous projects, references, experience)
- ☐ Market analysis or competitive data supporting but for justification

PATHWAY B ONLY - Also submit:

- ☐ Comprehensive economic and fiscal impact analysis
- ☐ Return on investment and payback period calculations with detailed assumptions
- ☐ Primary job creation analysis with detailed wage and benefit information
- ☐ Documentation demonstrating compliance with Economic Development Investment Policy

F. Developer Certification

I certify that all information provided in this application and attachments is true, complete, and correct to the best of my knowledge. I understand that:

- Material misrepresentation may result in denial or termination of any approved deferral
- Approval authority may modify the requested deferral terms or deny the application
- No deferral is effective until a Development Agreement or Chapter 380 Agreement is executed
- Security equal to 110% of deferred amount will be required at or before Certificate of Occupancy or Temporary Certificate of Occupancy
- Deferred CRF obligations run with the land and bind all successors
- The City may require additional information during the review process

Developer Signature: _____ Date: _____

Printed Name & Title: _____

Submit completed applications to:

Economic Development Department

Scott Livingston, Director

City of League City

Phone: (281) 554-1036

Email: scott.livingston@leaguecitytx.gov

Exhibit B

League City's Economic Development Investment Policy

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