

TO: Board Members

THROUGH: Jeff Walker, Executive Administrator
Rebecca Trevino, Chief Financial Officer
Todd Chenoweth, General Counsel

FROM: Georgia Sanchez, Debt Portfolio Manager and Development Fund Manager

DATE: May 3, 2018

SUBJECT: Hilltop Securities Inc. financial advisory contract

ACTION REQUESTED

Consider authorizing the Executive Administrator to execute a contract amendment to increase the limit on total payments for services and expenses to Hilltop Securities Inc., formerly known as First Southwest, a Division of Hilltop Securities, by \$975,000.

BACKGROUND

On February 23, 2017, the Board approved the selection of First Southwest, a Division of Hilltop Securities, as financial advisor and authorized the Executive Administrator to negotiate and enter into a financial advisory consultant contract. The Texas Water Development Board (TWDB) entered into a contract effective March 1, 2017 and terminating February 28, 2019. The contract provided two extension options for an additional 12-month period in each case. The maximum value of the contract was set at \$1 million. In January 2018, the firm’s name was formally changed from “First Southwest, a Division of Hilltop Securities,” to “Hilltop Securities Inc.”

KEY ISSUES

In a recent review of the existing contract, invoices paid to date, and projected financial advisor activities, it has been determined that the TWDB will require additional payment capacity for the contract.

The increased costs are associated with an increase in the number of bond transactions and the large size of individual transactions. The TWDB has had five transactions during the first fourteen months of this contract, as compared to seven transactions for the prior two-year period. The transactions include, among others, the \$1.07 billion State Water Implementation Revenue Fund for Texas (SWIRFT) Revenue Bonds Series 2017A and Series 2017B, the inaugural issuance of the \$288.4 million State Revolving Fund Revenue Bonds New Series 2018, and the first spring SWIRFT revenue bonds issuance of over \$832

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million. The proposed contract amendment includes an increase of \$975,000, representing the financial advisory services currently anticipated for the remainder of the original contract term. No other changes to the contract, including associated fee schedules, are proposed.

It is anticipated that costs incurred under future financial advisor contracts will be higher than historical costs due to the size and timing of bond sales required by the SWIRFT and SRF programs. The Executive Administrator will continue to diligently review the services provided under financial advisor contracts for invoice accuracy and proper sizing of future contracts.

RECOMMENDATION

To continue to receive financial advisory services, including those pertaining to debt transactions, the Executive Administrator recommends that the Board authorize an amendment to the contract with Hilltop Securities, Inc., formerly known as First Southwest, a Division of Hilltop Securities, to increase the limit on total payments by \$975,000.