

From: Orlando Jay Juarez <ojuarez@mphlegal.com>
Sent: Tuesday, March 28, 2023 11:13 AM
To: Rick Schroder; Anne Burger Entrekin (HTS)
Cc: Sylvia Ibarra
Subject: RE: Reminder - City Council Meeting Today, 3/7/23
Attachments: JOHNSON CITY -NOI Resolution-2.pdf

Good morning, Rick.

In anticipation of next week's meeting, I have attached a resolution authorizing the publication and posting of notice of intent to issue the City's certificates of obligation. The following agenda caption could be used:

DISCUSS AND TAKE ACTION ON A RESOLUTION AUTHORIZING AND APPROVING PUBLICATION AND POSTING OF NOTICE OF INTENTION TO ISSUE CITY OF JOHNSON CITY, TEXAS COMBINATION TAX AND SURPLUS REVENUE CERTIFICATES OF OBLIGATION IN A MAXIMUM AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$1,500,000 AND PROVIDING AN EFFECTIVE DATE

With regards to the public hearings you mentioned below, you could use substantially the following language on the agendas for Council's next three meetings:

PUBLIC HEARING RELATED TO THE CITY'S ISSUANCE OF COMBINATION TAX AND SURPLUS REVENUE CERTIFICATES OF OBLIGATION IN THE MAXIMUM AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$1,500,000 FOR VARIOUS CAPITAL IMPROVEMENTS, INCLUDING STREET, SIDEWALK, AND DRAINAGE IMPROVEMENTS

Please forward this to any other persons you deem necessary (and let me know of any parties I should be including in future correspondence related to the Certificates of Obligation).

Of course, and as always, please don't hesitate to contact me with any questions or comments. I tested positive for COVID yesterday, so am working from home, but you can always reach me on my cell: 210.677.9940

MCCALL
PARKHURST & HORTON



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T 210.225.2809 M 210.677.9940

From: Rick Schroder <rschroder@johnsoncitytx.org>
Sent: Wednesday, March 8, 2023 4:40 PM
To: Anne Burger Entrekin (HTS) <Anne.BurgerEntrekin@hilltopsecurities.com>
Cc: Orlando Jay Juarez <ojuarez@mphlegal.com>
Subject: RE: Reminder - City Council Meeting Today, 3/7/23

Anne –

RESOLUTION NO. _____

**AUTHORIZING AND APPROVING PUBLICATION AND POSTING OF
NOTICE OF INTENTION TO ISSUE CITY OF JOHNSON CITY, TEXAS
COMBINATION TAX AND SURPLUS REVENUE CERTIFICATES OF
OBLIGATION IN A MAXIMUM AGGREGATE PRINCIPAL AMOUNT
NOT TO EXCEED \$1,500,000 AND PROVIDING AN EFFECTIVE DATE**

* * * *

WHEREAS, the City Council (the *Governing Body*) of the City of Johnson City, Texas (the *City*) has determined that it is advisable and necessary to issue and sell one or more series of certificates of obligation (the *Certificates*), the interest on which may or may not be included in the gross income of the holders thereof for purposes of federal income taxation, in an aggregate amount not to exceed \$1,500,000 as provided pursuant to the provisions of the Certificate of Obligation Act of 1971, as amended, Texas Local Government Code, Section 271.041 through 271.064, for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) designing, acquiring, constructing, renovating, improving, and equipping various City street and sidewalk improvements, including necessary capital maintenance and utilities relocation, drainage, and landscaping necessary or incidental thereto, (2) designing, renovating, improving, and equipping various drainage improvements, and (3) the payment of professional services related to the acquisition, design, construction, project management, and financing of the aforementioned projects; and

WHEREAS, prior to the issuance of the Certificates, the Governing Body is required to publish notice of its intention to issue the Certificates in a newspaper of general circulation and, if the City maintains an Internet website, post such notice of intention on the City's Internet website, such notice stating: (i) the time and place the City Council tentatively proposes to pass the resolution authorizing the issuance of the Certificates; (ii) the purposes for which the Certificates are to be issued; (iii) the manner in which the City Council proposes to pay the Certificates; (iv) the then-current principal amount of all outstanding ad valorem debt obligations of the City; (v) the then-current combined principal and interest required to pay all outstanding ad valorem debt obligations of the City on time and in full, which may be based on the City's expectations relative to the interest due on any variable rate ad valorem debt obligations; (vi) the maximum principal amount of the Certificates to be authorized; (vii) the estimated interest rate for the Certificates to be authorized or that the maximum interest rate for the Certificates may not exceed the maximum legal interest rate; and (viii) the maximum maturity date of the Certificates to be authorized; and

WHEREAS, the Governing Body hereby finds and determines that such documents pertaining to the sale of the Certificates should be approved, and the City should proceed with the giving of notice of intention to issue the Certificates in the time, form, and manner provided by law; and

WHEREAS, the Governing Body hereby finds and determines that the adoption of this Resolution is in the best interests of the residents of the City; **NOW, THEREFORE**,

**BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF JOHNSON
CITY, TEXAS:**

SECTION 1. The City Secretary and Chief Administrative Officer are each hereby authorized to cause to be published notice of the Governing Body's intention to issue the Certificates in one or more series (the interest on which may or may not be included in the gross income of the holders thereof for purposes of federal income taxation) and in aggregate amount not to exceed \$1,500,000 for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) designing, acquiring, constructing, renovating, improving, and equipping various City street and sidewalk improvements, including necessary capital maintenance and utilities relocation, drainage, and landscaping necessary or incidental thereto, (2) designing, renovating, improving, and equipping various drainage improvements, and (3) the payment of professional services related to the acquisition, design, construction, project management, and financing of the aforementioned projects. The Certificates will be payable from the levy of an annual ad valorem tax, within the limitations prescribed by law, upon all taxable property within the City and additionally from a pledge of and lien on certain "Surplus Revenues," if any, received by the City from the ownership and operation of the City's waterworks and sewer system. The notice hereby approved and authorized to be published shall read substantially in the form and content of Exhibit A attached hereto, which notice is incorporated herein by reference as a part of this Resolution for all purposes. The City Manager, the City Secretary, and the Chief Administrative Officer are each authorized to make changes to said Notice as necessary prior to its publication and posting described herein.

SECTION 2. The City Secretary or Chief Administrative Officer shall cause the notice described in Section 1 to be published in a newspaper of general circulation in the City, once a week for two (2) consecutive weeks, the date of the first publication shall be at least forty-six (46) days prior to the date stated therein for passage of the Resolution authorizing the issuance of the Certificates. Additionally, the City Secretary or Chief Administrative Officer shall cause the notice described in Section 1 to be posted continuously on the City's website for at least forty-five (45) days prior to the date stated therein for passage of the Resolution authorizing the issuance of the Certificates.

SECTION 3. All ordinances and resolutions, or parts thereof, which are in conflict or inconsistent with any provision of this Resolution are hereby repealed to the extent of such conflict, and the provisions of this Resolution shall be and remain controlling as to the matters resolved herein.

SECTION 4. This Resolution shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

SECTION 5. If any provision of this Resolution or the application thereof to any person or circumstance shall be held to be invalid, the remainder of this Resolution and the application of such provision to other persons and circumstances shall nevertheless be valid, and the City

Council hereby declares that this Resolution would have been enacted without such invalid provision.

SECTION 6. It is officially found, determined, and declared that the meeting at which this Resolution is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Resolution, was given, all as required by Chapter 551, as amended, Texas Government Code.

SECTION 7. The City Council hereby finds that the statements set forth in the recitals of this Resolution are true and correct, and the City Council hereby incorporates such recitals as a part of this Resolution.

SECTION 8. This Resolution shall become effective immediately upon passage.

* * *

PASSED AND ADOPTED on the 4th day of April, 2023.

CITY OF JOHNSON CITY, TEXAS

Mayor

ATTEST:

City Secretary

[The remainder of this page intentionally left blank.]

EXHIBIT A

CITY OF JOHNSON CITY, TEXAS NOTICE OF INTENTION TO ISSUE COMBINATION TAX AND SURPLUS REVENUE CERTIFICATES OF OBLIGATION

NOTICE IS HEREBY GIVEN that the City Council of the City of Johnson City, Texas will convene at its regular meeting place in the City Hall, 303 E. Pecan Dr., Johnson City, Texas 78636 at 6:00, Johnson City, Texas time, on June 6, 2023, and during such meeting, the City Council will consider the passage of a Resolution and take such actions as may be deemed necessary to authorize the issuance of one or more series of certificates of obligation (the interest on which may or may not be included in the gross income of the holders thereof for purposes of federal income taxation) in an aggregate principal amount not to exceed \$1,500,000 for the purpose or purposes of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to wit: (1) designing, acquiring, constructing, renovating, improving, and equipping various City street and sidewalk improvements, including necessary capital maintenance and utilities relocation, drainage, and landscaping necessary or incidental thereto, (2) designing, renovating, improving, and equipping various drainage improvements, and (3) the payment of professional services related to the acquisition, design, construction, project management, and financing of the aforementioned projects (collectively, the "Projects"), and (4) for paying all or a portion of the legal, financial and engineering fees in connection with the Projects and the costs of issuance related to such hereinafter defined Certificates. Each series of certificates (together, the "Certificates") will be payable from the levy of an annual ad valorem tax, within the limitations prescribed by law, upon all taxable property within the City and, additionally, from a pledge of and lien on certain "Surplus Revenues," if any, received by the City from the ownership and operation of the City's waterworks and sewer system. In accordance with Section 271.049, as amended, Texas Local Government Code, (i) the current principal amount of all of the City's outstanding public securities secured by and payable from ad valorem taxes is \$1,784,000; (ii) the current combined principal and interest required to pay all of the City's outstanding public securities secured by and payable from ad valorem taxes on time and in full is \$2,010,615.25; (iii) the estimated combined principal and interest required to pay the Certificates to be authorized on time and in full is \$2,421,813; (iv) the maximum interest rate for the Certificates may not exceed the maximum legal interest rate; and (v) the maximum maturity date of the Certificates to be authorized is August 1, 2044. The Certificates are to be issued, and this notice is given, under and pursuant to the provisions of the Certificate of Obligation Act of 1971, as amended, Texas Local Government Code Section 271.041 through Section 271.064, and Chapter 1502, Texas Government Code, as amended.

/s/ Whitney Walston
City Secretary
City of Johnson City, Texas



HilltopSecurities

Investment Banking Solutions

City of Johnson City, Texas

Consideration of Potential Utilization of Certificates of
Obligation for City Street Repairs
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March 7, 2023

Financial Advisory Team Contact Information



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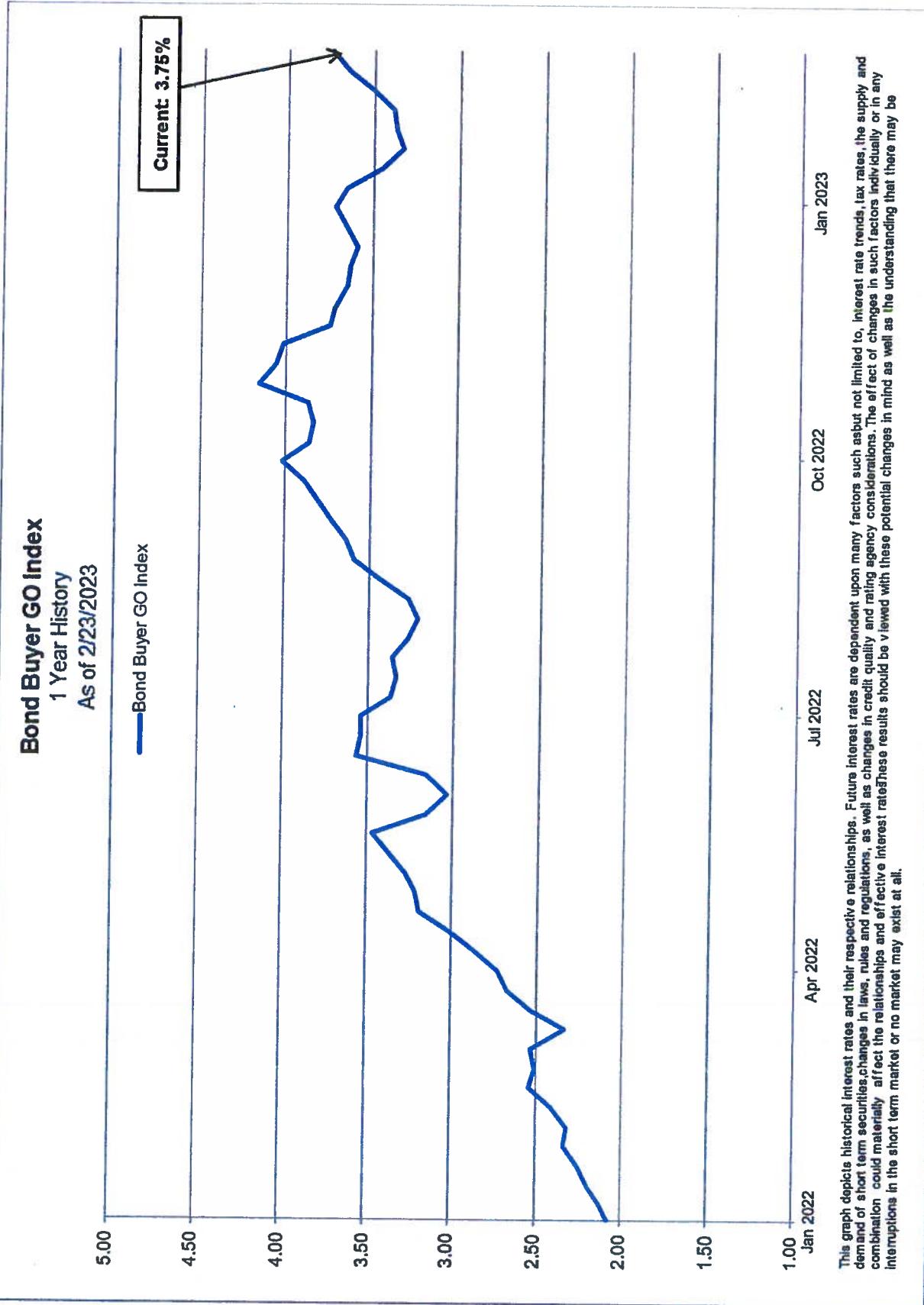
Direct: 210.308.2207

Homer Maldonado

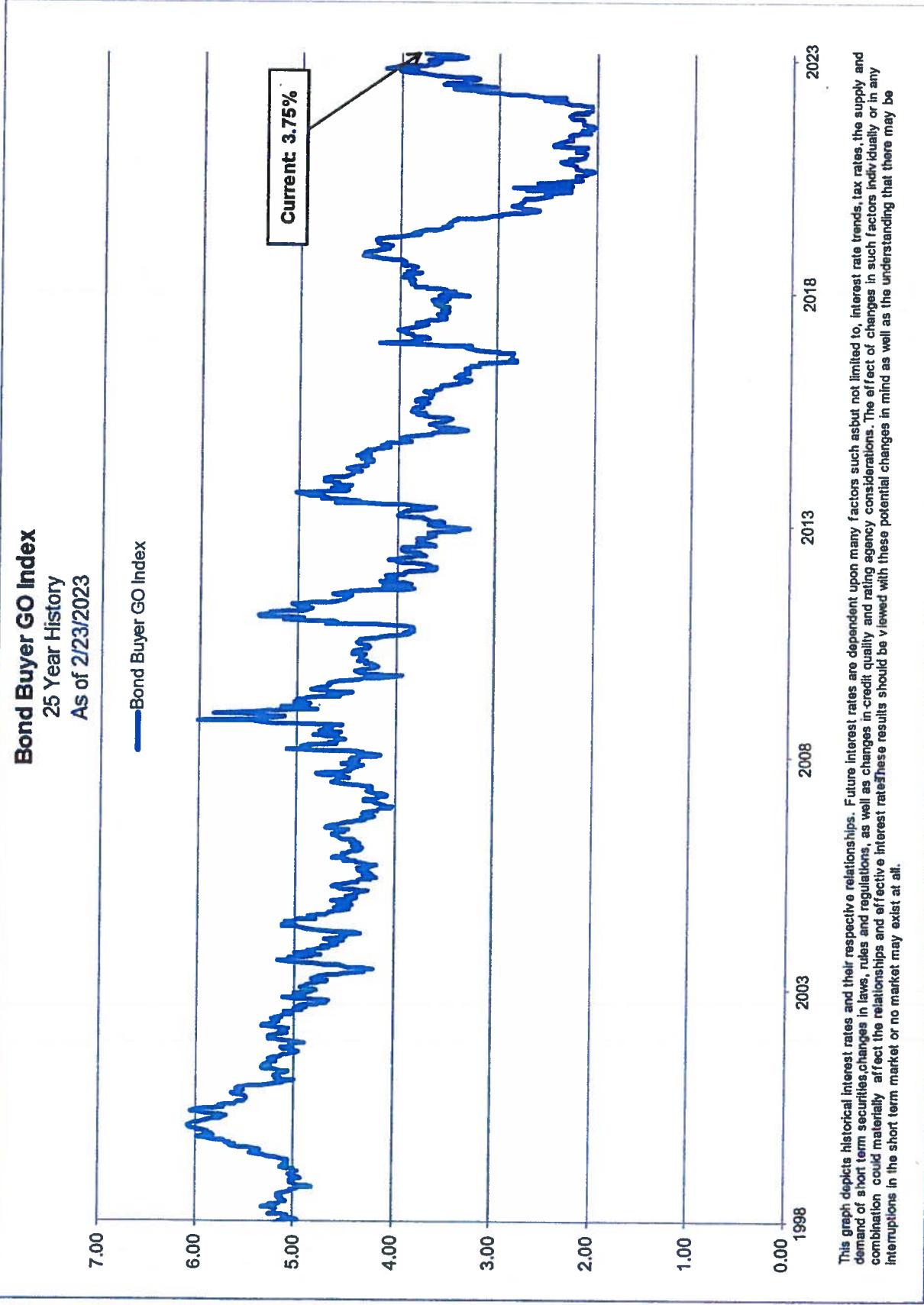


Market Update

Bond Buyer's Index of 20 Municipal Bonds



Bond Buyer's Index of 20 Municipal Bonds

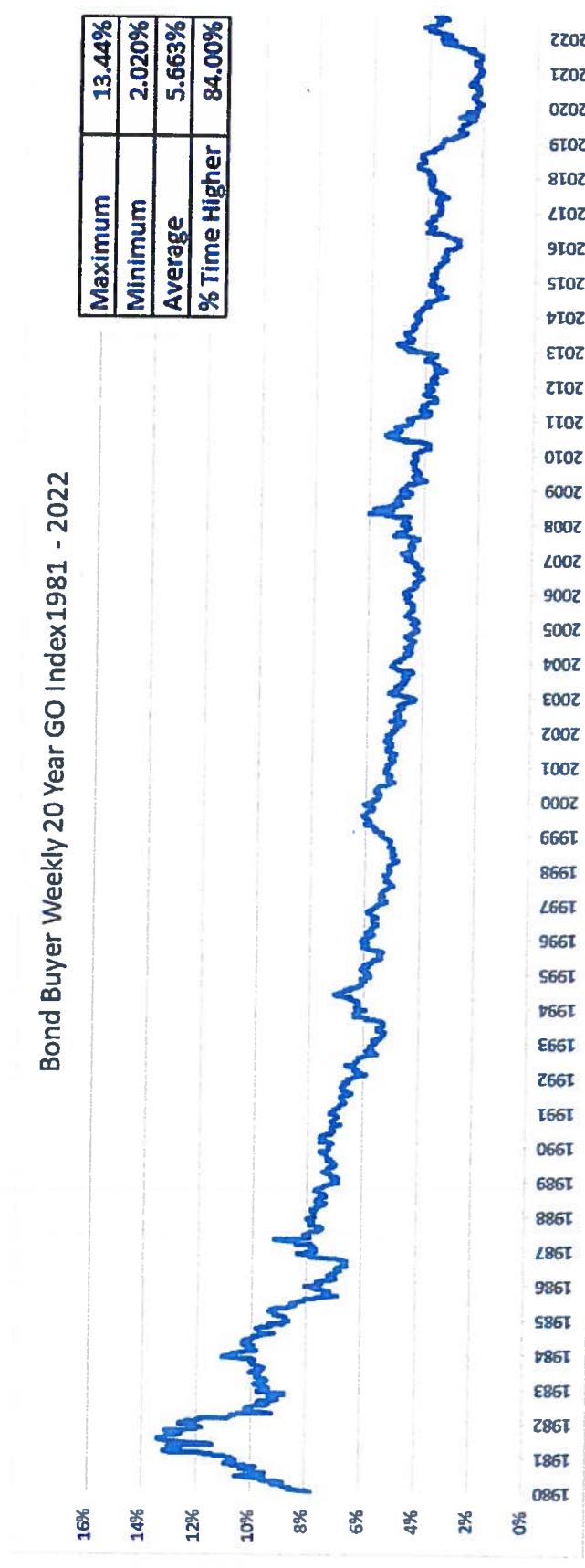


This graph depicts historical interest rates and their respective relationships. Future interest rates are dependent upon many factors such as but not limited to, interest rate trends, tax rates, the supply and demand of short term securities, changes in laws, rules and regulations, as well as changes in credit quality and rating agency considerations. The effect of changes in such factors individually or in any combination could materially affect the relationships and effective interest rate. These results should be viewed with these potential changes in mind as well as the understanding that there may be interruptions in the short term market or no market may exist at all.

Historical Interest Rates



Bond Buyer Weekly 20 Year GO Index 1981 - 2022



This graph depicts historical interest rates and their respective relationships. Future interest rates are dependent upon many factors such as, but not limited to, interest rate trends, tax rates, supply, changes in laws, rules and regulations, as well as changes in credit quality and rating agency considerations. The effect of such changes in such assumptions may be material and could effect the projected results. These results should be viewed with these potential changes in mind as well as the understanding that there may be interruptions in the short term market or no market may exist at all.

- Going back to 1981 when the Bond Buyer's Index of 20 Municipal Bonds was started, interest rates have been higher 84.00% of the time than current interest rates



Projected Certificates of Obligation Debt Service and Tax Rate

Projected Issuance Debt Service and Tax Rate



PRELIMINARY - for discussion purposes only

Notice

- Maximum Tax Rate - \$ 0.1067
- Estimated Tax Rate Increase - None

WWSI is self-supporting and funded by WWSI revenues

(4) Estimated closing date of June 29, 2023 with principal and interest payments on February 1 and August 1 of each year starting in 2024.

(3) Actual FYE 2023 Tax Rate less than Projected FYE 2024 Tax Rate. Assumed Tax Collection Rate of: 98%

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Sale Method Considerations

Types of Bond Sales

- Open Market: public offering of debt obligations
- Can be accomplished as a competitive or negotiated offering
- Subject to additional requirements, since bonds are expected to be publicly offered and traded
- Private Placement: a limited distribution to one or several investors
- Issues delivered to bank as direct placements of bonds for example
- Can be accomplished quickly (typically no need for offering document or ratings), but terms are less flexible (primarily banks)



Projected Issuance Debt Service and Tax Rate



Open Market Sale

- Process includes the following:
 - Prepare Offering or Disclosure Document
 - Obtain a rating from one of the nationally recognized rating agencies
 - In addition to the rating process, the rating will also require annual surveillance
 - An underwriter will need to be selected
 - Underwriter's Counsel is required to undertake a formal due diligence process
 - Generally, interest rate lower than Direct Placement
 - However, overall cost may not be less after factoring in the preparation of the disclosure document, the rating fee, the underwriter's counsel fee
 - Process can take more time to execute
 - Continuing disclosure requirement more formal and required to be through EMMA
 - CO's could not be sold prior to mid - January

Direct Placement Sale

- Process includes the following:
 - Purchaser is identified
 - Local bank or depository, or through a competitive solicitation
 - Generally, a disclosure document is not required
 - Generally, a rating is not required
 - Generally, minimal due diligence process required
 - Interest rate may be higher than an Open Market transaction
 - However, overall cost may be less after factoring in the preparation of the disclosure document, the rating fee, the underwriter's counsel fee
 - Process requires less steps for execution
 - Continuing disclosure requirement generally less onerous, for example, providing annual audit to purchaser annually
 - CO's could be issued sold at any time, with issuance process

Proposed Timetable of Events for Consideration



March						
S	M	T	W	T	F	S
	1	2	3	4		
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

April						
S	M	T	W	T	F	S
1	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

May						
S	M	T	W	T	F	S
1	2	3	4	5	6	
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

June						
S	M	T	W	T	F	S
	1	2	3			
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

Date	Event
Tuesday, March 7, 2023	Regular meeting of the City Council to discuss the potential issuance of Certificates of Obligation for Street Repairs.
Tuesday, March 21, 2023	FOMC Meeting.
Tuesday, April 4, 2023	Regular meeting of the City Council. Consider a Resolution authorizing the Notice of Intent to Issue Certificates of Obligation.
Thursday, April 6, 2023	Publication due to newspaper to include request for two publications, Wednesday, April 12th and Wednesday, April 19th.
Friday, April 7, 2023	Good Friday Holiday
Wednesday, April 12, 2023	First publication of Notice of Intent to Issue Certificates of Obligation.
Wednesday, April 19, 2023	Second publication of Notice of Intent to Issue Certificates of Obligation.
Tuesday, May 2, 2023	FOMC Meeting.
Wednesday, May 3, 2023	
Week of May 22nd	Internal Due Diligence Call.
Wednesday, May 24, 2023	Finalize Interest Rate with Purchaser.
Monday, May 29, 2023	Memorial Day Holiday
Tuesday, June 6, 2023	Regular meeting to conduct sale of Certificates of Obligation. Consider the adoption of the Ordinance Authorizing Issuance of Certificates of Obligation and approving and authorizing the execution of the Bond Purchaser Agreement.
Tuesday, June 13, 2023	FOMC Meeting.
Saturday, June 24, 2023	
Monday, June 19, 2023	Emancipation Day Holiday
Thursday, June 29, 2023	Closing Date; City delivers the Certificates of Obligation to Purchaser and receives funds.

 = Important Dates
 = FOMC Meetings
 = Holidays

Summary



- The City has the option to consider the utilization of Certificates of Obligation to fund street related capital improvement project costs
- We have confirmed with the City's Bond Counsel that all street repair projects currently being considered are eligible under the provisions for Certificates of Obligation
- The Certificate of Obligation process takes approximately 95 days
- While municipal interest rates have increased, going back to 1981 when the Bond Buyer's Index of 20 Municipal Bonds was started, interest rates have been higher 84.00% of the time than current interest rates
- Should the City be interested in pursuing this process, we can continue discussions with the local bank
- We have provided a preliminary timetable for consideration



REGULATORY DISCLOSURES

Disclosure



The general market commentary herein is intended for educational and informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this market commentary was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. This market commentary represents historical information only and is not an indication of future performance. This market commentary may not be shared with anyone other than the intended recipient without the explicit written consent of HilltopSecurities.

This information is intended to be a summary of general market information. HilltopSecurities is not recommending an action to you as the municipal entity or obligated person. This commentary does not represent municipal advice pursuant to Section 15B of the Exchange Act. HilltopSecurities is acting for its own interests. You should discuss any information and material contained in this communication with any and all internal or external advisors and experts that you deem appropriate. When not already acting as a municipal advisor, HilltopSecurities could seek to serve as an underwriter on a future transaction. The primary role of an underwriter is to purchase securities with a view to distribution in an arms-length, commercial transaction with the issuer. The underwriter has financial and other interests that differ from those of the issuer.

Municipal Advisor Disclosure Statement



This disclosure statement ("Conflict Disclosures") is provided by Hilltop Securities Inc. ("the Firm") to disclose information regarding conflicts of interest and legal or disciplinary events of the Firm that are required to be disclosed to potential clients pursuant to MSRB Rule G-42(b) and (c)(ii).

PART A – Disclosures of Conflicts of Interest

MSRB Rule G-42 requires that municipal advisors provide to their clients disclosures relating to any actual or potential material conflicts of interest, including certain categories of potential conflicts of interest identified in Rule G-42, if applicable.

Material Conflicts of Interest – The Firm makes the disclosures set forth below with respect to material conflicts of interest in connection with the Scope of Services under the Agreement with the Firm, together with explanations of how the Firm addresses or intends to manage or mitigate each conflict.

General Mitigations – As general mitigations of the Firm's conflicts, with respect to all of the conflicts disclosed below, the Firm mitigates such conflicts through its adherence to its fiduciary duty to clients, which includes a duty of loyalty to clients in performing all municipal advisory activities for clients. This duty of loyalty obligates the Firm to deal honestly and with the utmost good faith with client and to act in the client's best interests without regard to the Firm's financial or other interests. In addition, because the Firm is a broker-dealer with significant capital due to the nature of its overall business, the success and profitability of the Firm is not dependent on maximizing short-term revenue generated from individualized recommendations to its clients but instead is dependent on long-term profitably built on a foundation of integrity, quality of service and strict adherence to its fiduciary duty. Furthermore, the Firm's municipal advisory supervisory structure, leveraging our long-standing and comprehensive broker-dealer supervisory processes and practices, provides strong safeguards against individual representatives of the Firm potentially departing from their regulatory duties due to personal interests. The disclosures below describe, as applicable, any additional mitigations that may be relevant with respect to any specific conflict disclosed below.

I. Affiliate Conflict. The Firm, directly and through affiliated companies, provides or may provide services/advice/products to or on behalf of clients that are related to the Firm's advisory activities. Hilltop Securities Asset Management (HSAM), a SEC-registered affiliate of the Firm, provides post issuance services including arbitrage rebate and treasury management. The Firm's arbitrage team verifies rebate and yield restrictions on the investments of bond proceeds on behalf of clients in order to meet IRS restrictions. The treasury management division performs portfolio management/advisor services on behalf of public sector clients. The Firm, through affiliate Hilltop Securities Asset Management (HSAM), provides a multi-employer trust tailor-made for public entities which allows them to prefund Other Post-Employment Benefit liabilities. The Firm has a structured products desk that provides advice to help clients mitigate risk through investment management, debt management and commodity price risk management products. These products consist of but are not limited to swaps (interest rate, currency, commodity), options, repos, escrow structuring and other securities. Continuing Disclosure services provided by the Firm work with issuers to assist them in meeting disclosure requirements set forth in SEC rule 15c2-12. Services include but are not limited to ongoing maintenance of issuer compliance, automatic tracking of issuer's annual filings and public notification of material events. The Firm administers government investment pools. These programs offer governmental entities investment options for their cash management programs based on the entities specific needs. The Firm and the aforementioned affiliate's business with a client could create an incentive for the Firm to recommend to a client a course of action designed to increase the level of a client's business activities with the affiliates or to recommend against a course of action that would reduce or eliminate a client's business activities with the affiliates. This potential conflict is mitigated by the fact that the Firm and affiliates are subject to their own comprehensive regulatory regimes.

II. PlainsCapital Bank Affiliate Conflict. The Firm, directly and through affiliated companies, provides or may provide services/advice/products to or on behalf of clients that are related to the Firm's advisory activities. Affiliate, PlainsCapital Bank, provides banking services to municipalities including loans and custody. The Firm and the aforementioned affiliate's business with a client could create an incentive for the Firm to recommend to a client a course of action designed to increase the level of a client's business activities with the affiliates or to recommend against a course of action that would reduce or eliminate a client's business activities with the affiliates. This potential conflict is mitigated by the fact that the Firm and affiliates are subject to their own comprehensive regulatory regimes.

Municipal Advisor Disclosure Statement



III. Other Municipal Advisor or Underwriting Relationships. The Firm serves a wide variety of other clients that may from time to time have interests that could have a direct or indirect impact on the interests of other clients. For example, the Firm serves as municipal advisor to other municipal advisory clients and, in such cases, owes a regulatory duty to such other clients just as it does to all its municipal advisory clients. These other clients may, from time to time and depending on the specific circumstances, have competing interests, such as accessing the new issue market with the most advantageous timing and with limited competition at the time of the offering. In acting in the interests of its various clients, the Firm could potentially face a conflict of interest arising from these competing client interests. In other cases, as a broker-dealer that engages in underwritings of new issuances of municipal securities by other municipal entities, the interests of the Firm to achieve a successful and profitable underwriting for its municipal entity underwriting clients could potentially constitute a conflict of interest if, as in the example above, the municipal entities that the Firm serves as underwriter or municipal advisor have competing interests in seeking to access the new issue market with the most advantageous timing and with limited competition at the time of the offering. None of these other engagements or relationships would impair the Firm's ability to fulfill its regulatory duties to any specific client.

IV. Secondary Market Transactions in Client's Securities. The Firm, in connection with its sales and trading activities, may take a principal position in securities, including securities of its clients, and therefore the Firm could have interests in conflict with a client with respect to the value of the client's securities while held in inventory and the levels of mark-up or mark-down that may be available in connection with purchases and sales thereof. In particular, the Firm or its affiliates may submit orders for and acquire a municipal advisory client's securities issued in an issue under a municipal advisory agreement from members of the underwriting syndicate, either for its own account or for the accounts of its customers. This activity may result in a conflict of interest with the client in that it could create the incentive for the Firm to make recommendations to the client that could result in more advantageous pricing of the client's bond in the marketplace. Any such conflict is mitigated by means of such activities being engaged in on customary terms through units of the Firm that operate independently from the Firm's municipal advisory business, thereby reducing the likelihood that such investment activities would have an impact on the services provided by the Firm to any client under a municipal advisory agreement.

V. Broker-Dealer and Investment Advisory Business. The Firm is dually registered as a broker-dealer and an investment advisor that engages in a broad range of securities-related activities to service its clients, in addition to serving as a municipal advisor or underwriter. Such securities-related activities, which may include but are not limited to the buying and selling of new issue and outstanding securities and investment advice in connection with such securities, including securities of the firm's municipal advisory clients, may be undertaken on behalf of, or as counterparty to, the client, personnel of the client, and current or potential investors in the securities of the client. These other clients may, from time to time and depending on the specific circumstances, have interests in conflict with those of the Firm's municipal advisory clients, such as when their buying or selling of the municipal advisory client's securities may have an adverse effect on the market for municipal advisory client's securities, and the interests of such other clients could create the incentive for the Firm to make recommendations to the municipal advisory client that could result in more advantageous pricing for the other clients. Furthermore, any potential conflict arising from the firm effecting or otherwise assisting such other clients in connection with such transactions is mitigated by means of such activities being engaged in on customary terms through units of the Firm that operate independently from the Firm's municipal advisory business, thereby reducing the likelihood that the interests of such other clients would have an impact on the services provided by the Firm to its municipal advisory clients.

VI. Compensation-Based Conflicts. Fees that are based on the size of the issue are contingent upon the delivery of the issue. While this form of compensation is customary in the municipal securities market, this may present a conflict because it could create an incentive for the Firm to recommend unnecessary financings or financings that are disadvantageous to its clients, or to advise clients to increase the size of the issue. This conflict of interest is mitigated by the general mitigations described above.

Fees based on a fixed amount are usually based upon an analysis by the client and the Firm of, among other things, the expected duration and complexity of the transaction and the scope of municipal services to be performed by the Firm. This form of compensation presents a potential conflict of interest because, if the transaction requires more work than originally contemplated, the Firm may suffer a loss. Thus, the Firm may recommend less time-consuming alternatives, or fail to do a thorough analysis of alternatives. This conflict of interest is mitigated by the general mitigations described above.

Municipal Advisor Disclosure Statement



Hourly fees are calculated with, the aggregate amount equaling the number of hours worked by Firm personnel times an agreed-upon hourly billing rate. This form of compensation presents a potential conflict of interest if the client and the Firm do not agree on a reasonable maximum amount at the outset of the engagement, because the Firm does not have a financial incentive to recommend alternatives that would result in fewer hours worked. This conflict of interest is mitigated by the general mitigations described above.

PART B – Disclosures of Information Regarding Legal Events and Disciplinary History

MSRB Rule G-42 requires that municipal advisors provide to their clients certain disclosures of legal or disciplinary events material to its client's evaluation of the municipal advisor or the integrity of the municipal advisor's management or advisory personnel.

Accordingly, the Firm sets out below required disclosures and related information in connection with such disclosures.

I. Material Legal or Disciplinary Event. The Firm discloses the following legal or disciplinary events that may be material to Client's evaluation of the Firm or the integrity of the Firm's management or advisory personnel:

- For related disciplinary actions please refer to the Firm's BrokerCheck webpage.
- The Firm self-reported violations of SEC Rule 15c2-12: Continuing Disclosure. The Firm settled with the SEC on February 2, 2016. The firm agreed to retain independent consultant and adopt the consultant's finding. Firm paid a fine of \$360,000.
- The Firm settled with the SEC in matters related to violations of MSRB Rules G-23(c), G-17 and SEC rule 15B(c) (1). The Firm disgorged fees of \$120,000 received as financial advisor on the deal, paid prejudgment interest of \$22,400.00 and a penalty of \$50,000.00.
- The Firm entered into a Settlement Agreement with Rhode Island Commerce Corporation. Under the Settlement Agreement, the firm agreed to pay \$16.0 million to settle any and all claims in connection with The Rhode Island Economic Development Corporation Job Creation Guaranty Program Taxable Revenue Bond (38 Studios, LLC Project) Series 2010, including the litigation thereto. The case, filed in 2012, arose out of a failed loan by Rhode Island Economic Development Corporation. The firm's predecessor company, First Southwest Company, LLC, was one of 14 defendants. FirstSouthwest's engagement was limited to advising on the structure, terms, and rating of the underlying bonds. Hilltop settled with no admission of liability or wrongdoing.
- On April 30, 2019, the Firm entered into a Settlement Agreement with Berkeley County School District of Berkeley County, South Carolina. The case, filed in March of 2019, arose in connection with certain bond transactions occurring from 2012 to 2014, for which former employees of Southwest Securities, Inc., a predecessor company, provided financial advisory services. The Firm agreed to disgorge all financial advisory fees related to such bond transactions, which amounted to \$822,966.47, to settle any and all claims, including litigation thereto. Under the Settlement Agreement, the Firm was dismissed from the lawsuit with prejudice, no additional penalty, and with no admission of liability or wrongdoing.
- From July 2011 to October 2015, Hilltop failed to submit required MSRB Rule G-32 information to EMMA in connection with 122 primary offerings of municipal securities for which the Firm served as placement agent. During the period January 2012 to September 2015, the Firm failed to provide MSRB Rule G-17 letters to issuers in connection with 119 of the 122 offerings referenced above. From October 2014 to September 2015, the Firm failed to report on Form MSRB G-37 that it had engaged in municipal securities business as placement agent for 45 of these 122 offerings. This failure was a result of a misunderstanding by one branch office of Southwest Securities. Hilltop discovered these failures during the merger of FirstSouthwest and Southwest Securities and voluntarily reported them to FINRA.
- In connection with a settlement on July 9, 2021, the U.S. Securities and Exchange Commission found that, between January 2016 and April 2018, the Firm bought municipal bonds for its own account from another broker-dealer and that, on occasion during that time period, the other broker-dealer mischaracterized the Firm's orders when placing them with the lead underwriter. The SEC found that, among other things, the Firm lacked policies and procedures with respect to how stock orders were submitted for new issues bonds to third parties, including the broker-dealer that mischaracterized the Firm's orders. The SEC found violations of MSRB Rules G-27, G-17, and SEC rule 15B(c)(1) and a failure to reasonably supervise within the meaning of Section 15(b)(4)(E) of the Securities Exchange Act of 1934. The Firm was censured and ordered to pay disgorgement of \$206,606, prejudgment interest of \$48,587 and a penalty of \$85,000.

Municipal Advisor Disclosure Statement



II. How to Access Form MA and Form MA-I Filings. The Firm's most recent Form MA and each most recent Form MA-I filed with the SEC are available on the SEC's EDGAR system at [Forms MA and MA-I](#). The SEC permits certain items of information required on Form MA or MA-I to be provided by reference to such required information already filed by the Firm in its capacity as a broker-dealer on Form BD or Form U4 or as an investment adviser on Form ADV, as applicable. Information provided by the Firm on Form BD or Form U4 is publicly accessible through reports generated by BrokerCheck at <http://brokercheck.finra.org/>, and the Firm's most recent Form ADV is publicly accessible at the Investment Adviser Public Disclosure website at <http://www.adviserinfo.sec.gov/>. For purposes of accessing such BrokerCheck reports or Form ADV, click previous hyperlinks.

PART C – MSRB Rule G-10 Disclosure

MSRB Rule G-10 covers Investor and Municipal Advisory Client education and protection. This rule requires that municipal advisors make certain disclosures to all municipal advisory clients. This communication is a disclosure only and does not require any action by the firm's municipal advisory clients. The disclosures are noted below.

1. Hilltop Securities Inc. is registered with the U.S. Securities and Exchange Commission and the Municipal Securities Rulemaking Board as a Municipal Advisor.
2. You can access the website for the Municipal Securities Rulemaking Board at www.msrb.org
3. The Municipal Securities Rulemaking Board has posted a municipal advisory client brochure. A copy of the brochure is attached to the memo. This link will take you to the electronic version [MA-Clients-Brochure](#).

PART D – Future Supplemental Disclosures

As required by MSRB Rule G-42, this Municipal Advisor Disclosure Statement may be supplemented or amended, from time to time as needed, to reflect changed circumstances resulting in new conflicts of interest or changes in the conflicts of interest described above, or to provide updated information with regard to any legal or disciplinary events of the Firm. The Firm will provide Client with any such supplement or amendment as it becomes available throughout the term of the Agreement.