

## MEMORANDUM

**TO:** Claire Powell, City Manager

**FROM:** David Erb, Director of Finance

**DATE:** August 4, 2025

**SUBJECT: Approval of Renewal of a New Five-Year Agreement with Hilltop Securities Asset Management, LLC for Arbitrage Rebate Compliance Service; and Authorization for the City Manager, or Her Designee, to Execute the Agreement.**

### **BACKGROUND**

Arbitrage, as defined by U.S. Treasury regulations, refers to the ability to borrow funds at tax-exempt interest rates and invest those funds in higher-yielding taxable securities, thereby generating a profit for the issuer. In essence, arbitrage occurs when proceeds from low-yielding, tax-exempt bonds are used to earn higher returns from taxable investments.

Arbitrage regulations were first introduced in 1969. Since that time, there has been a number of amendments and updates to these rules through federal tax law changes. Because of the frequent and ongoing modifications, compliance requires issuers to understand and apply the specific regulations that were in effect on the delivery date of each outstanding bond issue. Failure to comply with arbitrage restrictions can jeopardize the tax-exempt status of a bond issue, potentially resulting in significant financial consequences for the issuer.

Hilltop Securities serves the City as an independent provider of arbitrage rebate and post-issuance compliance services. The firm currently supports approximately 680 clients across 36 states, overseeing more than 3,650 bond issues with a combined aggregate par amount of roughly \$255 billion. With a large client base across Texas and nationwide, Hilltop combines deep expertise with extensive experience to deliver highly specialized compliance solutions tailored to meet regulatory requirements.

### **ANALYSIS**

Given the highly specialized nature of arbitrage rebate calculations and the need for continuous expertise in the evolving U.S. tax code, performing these calculations in-house would require the addition of specialized professional staff. From a cost-benefit perspective, this approach is not practical or efficient. An added benefit of partnering with Hilltop Securities is their ongoing monitoring of arbitrage rebate payments to assess the potential for refund opportunities. Hilltop has previously represented the City in pursuing such refunds and will continue to do so as needed.

The proposed agreement includes an increase in the base fee from the previous five-year contract. The base fee for each debt obligation will increase from \$1,400 to \$1,600. The fee is only applicable when a computation is performed. A 10% discount is available when all required documentation is submitted in electronic format. For services involving the preparation of an IRS refund request, a flat fee of \$3,000 will apply when additional work is necessary.

At present, the City has 27 outstanding bond issues, including General Obligation, Certificates of Obligation, and Water/Sewer bonds that fall under the scope of these services.

**CITY STAFF'S RECOMMENDATION**

That City Council approve the ordinance as set forth in the caption.