City of Hutto

Agenda

City Council Work Session
Thursday, March 23, 2023 at 6:00 PM
Executive Conference Room
Hutto City Hall
500 W. Live Oak Street

In accordance with the Texas Open Meetings Act this meeting agenda is posted for public information, continuously, for at least 72 hours prior to the scheduled time of the meeting on the bulletin board located on the exterior wall of the City Hall building at 500 West Live Oak, Hutto, Texas. This meeting agenda is also accessible via the Internet at huttotx.gov

1. CALL SESSION TO ORDER

2. ROLL CALL

3. OTHER BUSINESS

3.1. Discuss Investment Report for the quarter ended 12/31/22 and discuss City Investment Strategy. (LaMar Kemp, Christina Bishop, Anne LaMere).

4. ADJOURNMENT

5. CERTIFICATION

I certify that this notice of the March 23, 2023 Hutto City Council meeting was posted on the City of Hutto website and the City Hall bulletin board of the City of Hutto on March 20, 2023 before 5:00 P.M.

Angela Lewis

The City of Hutto is committed to comply with the Americans Disability Act. The Hutto City Council Chamber is wheelchair accessible. Request for reasonable special accommodations must be made 48 hours prior to the meeting. Please email the City Secretary's office at Angela.Lewis@huttotx.gov or call (512) 759-4839 for assistance.

AGENDA ITEM REPORT
3.1.

To:	City Council
Subject:	Discuss Investment Report for the quarter ended 12/31/22 and discuss City Investment Strategy. (LaMar Kemp, Christina Bishop, Anne LaMere).
Meeting:	Thursday, March 23, 2023
Department:	Finance /
Staff Contact:	

BACKGROUND INFORMATION:

International and US Economies are strong. Interest rates are continuing to rise. Budgeted interest for the 2023 FY across all funds was $105k. Interest earned Oct - Dec 2022 is $1.1M. The current investment strategy is to invest in Pools (TexStar, TexPool, TexClass). Investment policy was reviewed and approved in November 2022 and is attached for reference only. Resolution R-2022-102 approving the investment policy is also attached for reference only.

SUMMARY OF REQUEST:

Request to hold 11% in needed operating funds (0% interest bearing), move 71% into 3 and 6 month T-Bills and leave remaining 18% in pool funds. This requires the opening of a brokerage account (recommend Hilltop Securities that is on approved listing of firms). Hilltop does not hold securities, so account with Wells Fargo as holding agent.

STAFF REVIEW:

FISCAL NOTES:

Revised strategy provides estimated interest income of $6.2M for FY23 less $105k in budget is upside of $6.1M for budget.

ATTACHMENTS:

1. Signed Inv Rep Period Ended 123122
2. Investment Policy - Clean
3. Resolution R-2022-102 Approval of Investment Policy

CITY OF HUTTO

Investment Report

For Period Ending December 31, 2022

As Prepared

February 6, 2023

As Presented

February 16, 2023

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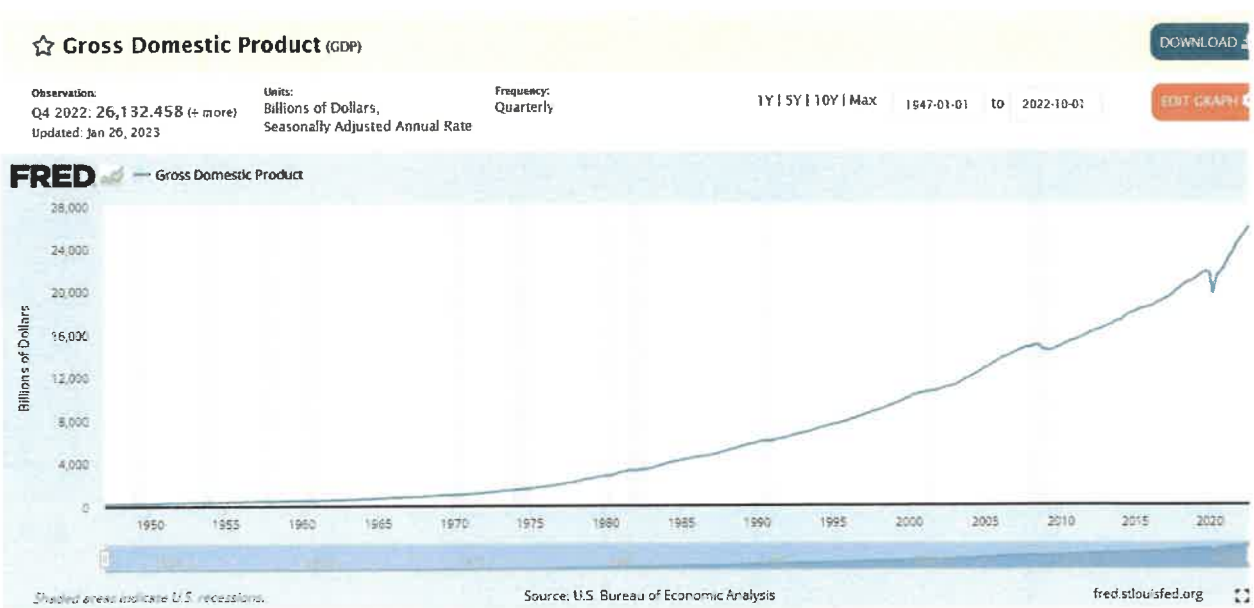
International Global Conditions

The world economy recovered from the 2007 financial crisis and entered a global slowdown. COVID is an ongoing global pandemic that began in January 2020 and has created many global supply shortages to include IT equipment, vehicles and raw materials. On February 24, 2022, Russia invaded Ukraine. Africa and India are two of the fastest growing economies and represent good international investment opportunities; however, as stated below, the US economy is strong. At this time, US investment is favored over International investment opportunities.

US Economy and Economic Indicators

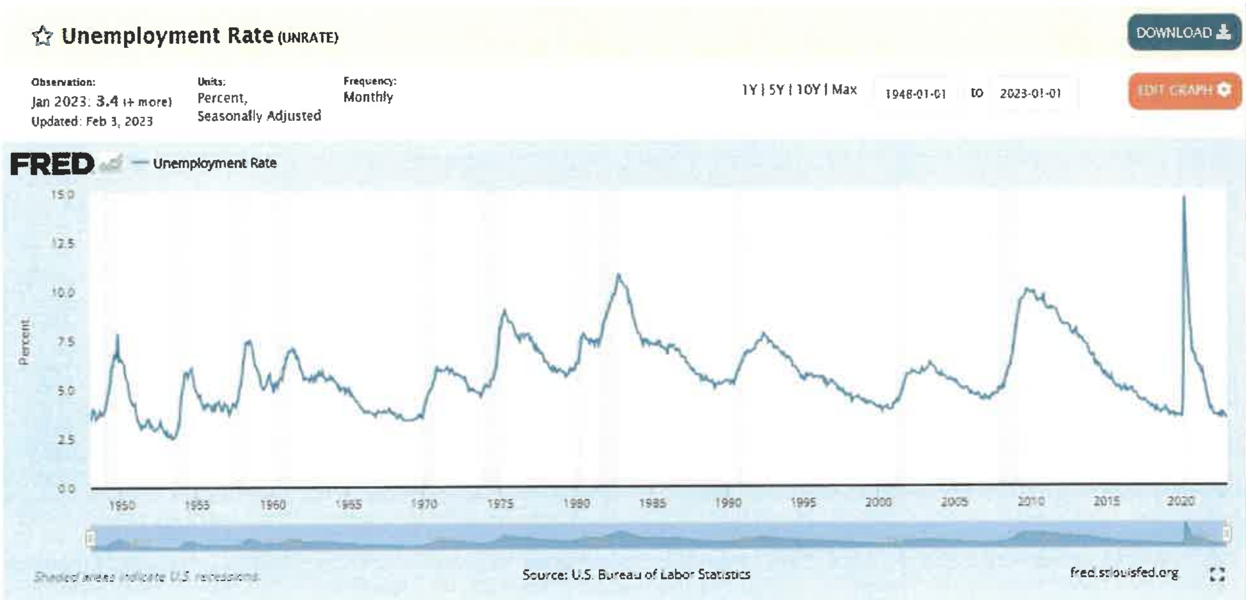
President Biden took office January 2021. COVID is getting better as more people are vaccinated and herd immunity provides protection (Statista 2/2/23 reports 69% fully vaccinated, 12% partially vaccinated, and 19% unvaccinated). As of 2/4/2023, according to ABC News/Washington Post polls, four in 10 Americans say they are worse off financially since Joe Biden became president, as prices for goods and services continue to soar. The supply chain continues to see disruption to include food, baby formula, and raw materials. Biden's call to provide infrastructure changes, known as the Build Back Better Plan, is facing resistance.

Gross Domestic Product (GDP) is signaling strong economic growth, which is conducive to tighter monetary policy. GDP took a dip of (3.4%) in 2020 due to COVID. GDP is once again increasing as the supply chain recovers. GDP is a lagging indicator of US economic health, with a general rule that if GDP drops for more than 2 quarters, a recession is coming. Jerome Powell has headed the Federal Reserve since February 2018, and during his term, oversaw the biggest rate hike in nearly three decades.



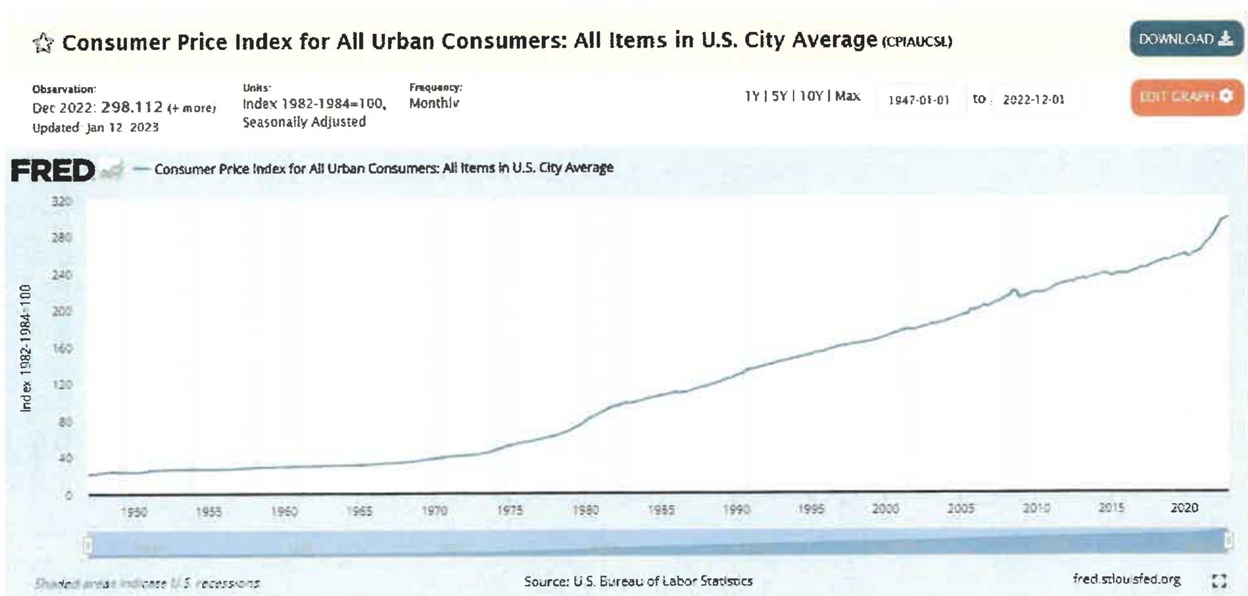
Source: St. Louis Federal Reserve https://fred.stlouisfed.org/series/GDP

The unemployment rate reached a high of 14.7% in 2020 due to the Great Resignation (reasons include -- COVID, lack of livable minimum wage, baby boomer retirement, lack of respect from older generation bosses who do not understand younger generation). Unemployment is currently at 3.4% which is the lowest rate since May 1969. The unemployment rate is a lagging indicator, with decreasing rates indicating a strong economy.



Source: https://fred.stlouisfed.org/series/UNRATE

The Consumer Price Index (CPI) is a lagging indicator for inflation and is a measure of the average change in prices over time of goods and services purchased by households. The CPI dropped slightly in December, which may indicate a decrease in inflation.



The Federal Open Market Committee (FOMC) has raised rates 8 times since March 2022 as shown below with the current rate of 4.75% being the highest rate since 2006. The Fed is raising rates to combat current high inflation and as a measure to avoid recession.

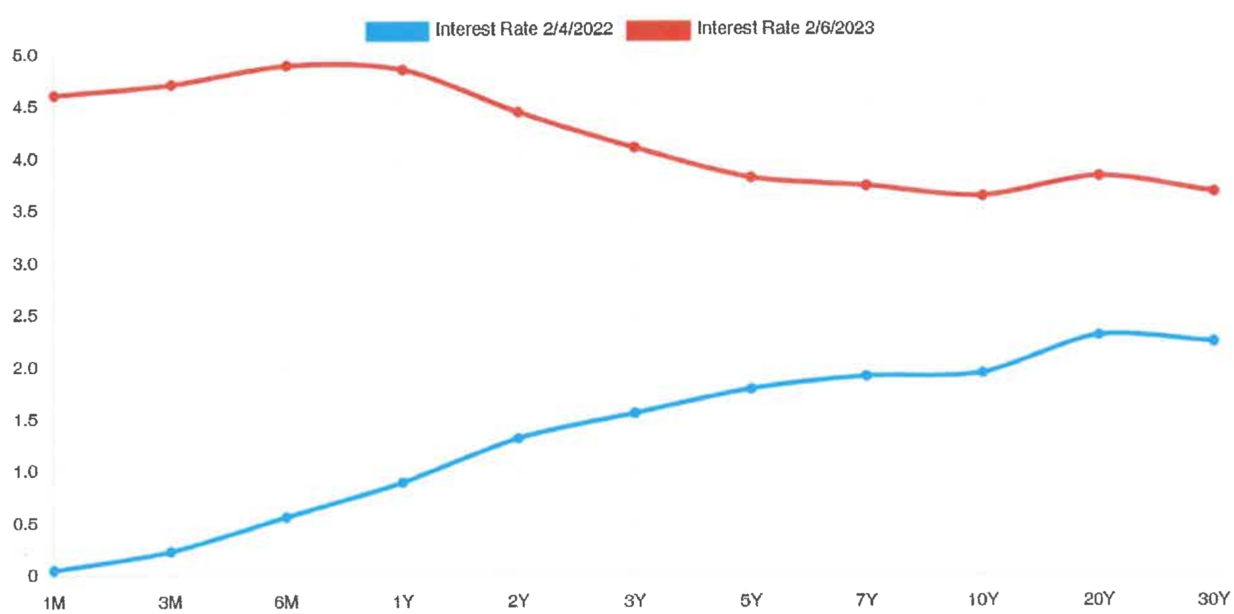
FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
Jan 31 to Feb 1	+25	4.50% to 4.75%
Dec 14, 2022	+50	4.25% to 4.50%
Nov 2, 2022	+75	3.75% to 4.00%
Sept 21, 2022	+75	3.00% to 3.25%
July 27, 2022	+75	2.25% to 2.50%
June 16, 2022	+75	1.5% to 1.75%
May 5, 2022	+50	0.75% to 1.00%
March 17, 2022	+25	0.25% to 0.50%

Source: Forbes Advisor

Source: https://www.federalreserve.gov/monetarypolicy/openmarket.htm

The Treasury Yield Curve is shown in blue for one year ago and is a normal yield curve. The current Yield Curve is shown in read and is an inverse yield curve (one in which longer term securities yield a lower interest rate), indicating possible future recession.

Treasury Yield Curve on 2/6/23 as Compared to 2/6/22



Source: https://www.ustreasuryyieldcurve.com/

Treasury T-Bill rates have increased as a result of the FOMC rate hikes. Currently, the rates are good for 6-month T-Bills at 4.89%, with rates for longer terms falling below that level. With an expectation that rates will increase over the next year, 6-month T-Bills would be a good investment for the City.

Date	1 Mo	2 Mo	3 Mo	4 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
02/01/2023	4.59	4.63	4.66	4.77	4.79	4.66	4.09	3.75	3.48	3.43	3.39	3.67	3.55
02/02/2023	4.62	4.65	4.66	4.75	4.76	4.64	4.09	3.75	3.49	3.44	3.40	3.67	3.55
02/03/2023	4.61	4.67	4.70	4.80	4.82	4.79	4.30	3.96	3.67	3.61	3.53	3.77	3.63
02/06/2023	4.61	4.67	4.71	4.81	4.89	4.85	4.44	4.10	3.81	3.73	3.63	3.82	3.67

Portfolio Presentation

Balances by Institution

Financial Institution	Bank Balance	Interest Earned	Interest Earned YTD	Current Annualized Rate
Bank of Texas	$ 1,896,700	$ 5,670	$ 14,238	3.59%
Cadence Bank	$ 211,036	$ 668	$ 1,700	3.80%
TexPool	$ 32,511,182	$ 76,350	$ 184,831	4.23%
TexStar	$ 29,473,063	$ 98,996	$ 255,458	4.25%
TexasCLASS	$ 84,720,188	$ 310,018	$ 630,560	4.59%
Wells Fargo Bank	$ 14,402,975	$ -	$ -	
Total	**$ 163,215,145**	**$ 491,703**	**$ 1,086,786**	

Note: Wells Fargo Bank includes $8M Operating Funds + $6M expected EDC Disbursement

The City began the year with $72M in cash, has had two bond issues ($25M and $51M) and therefore had a general increase in cash of $15M. Rates have increased from an average of 2% in September 2022 to the rates shown above by financial institution. The Bank of Texas account is an escrow account for a 2014 Bond Issue. The Cadence Bank is operating funds of the City. These two accounts are required to be held separately. Not listed above is an account with Cadence bank for the EDC which had a balance at 12/31/22 of $42k.

T-Bill What If Analysis

Financial Institution	Bank Balance	Monthly InterestWhat If Calculation	Current Annualized Rate
Bank of Texas	$ 1,896,700	$ 5,670	3.59%
Cadence Bank	$ 211,036	$ 668	3.80%
TexPool	$ 10,000,000	$ 35,250	4.23%
TexStar	$ 10,000,000	$ 35,417	4.25%
TexasCLASS	$ 10,000,000	$ 38,250	4.59%
Wells Fargo Bank	$ 14,107,409	$ -	0.00%
T-Bills 3 Month	$ 5,000,000	$ 19,625	4.71%
T-Bills 6 Month	$ 112,000,000	$ 456,400	4.89%
Total Expected Interest	**$ 163,215,145**	**$ 591,280**	
December Interest Earned		$ 491,703	
Increase in Monthly Interest		$ 99,577	
Annualized (*12 months)		1,194,924	

If the City were to employ an investment strategy of $10M in each of the 3 Government Pools, $14M in Wells Fargo operating account, $5M in 3-month T-Bills, and $112M in 6-month T-Bills, it could result in an additional $1.2M in interest for the year.

Budget Consideration

Across all funds, $105,050 was budgeted for interest earned. Assume this was based on 2022 rates that were in the 1% to 2% range. Estimate for 2023 Fiscal year is $6.2M in interest ($1.1M received Q1, $1.575 Q2 Est., $3.5 Q3 & Q4 = $6.2M Est for full year. This results in revenue upside to the budget of $6.1M.

Operating Needs

The City needs $5M to $10M per month for payment of payroll, goods and services. Over the next 3 months, $8M per month is needed for operations. A balance of $8M in the Wells Fargo operating bank account should be adequate to meet daily needs. If additional funds are needed, draws will occur from TexPool.

A request is made to keep $8M in Wells Fargo (plus $6M to make a February payment to the EDC), $10M in each government pool (TexPool, TexStar, and TexClass). Balances in Cadence Bank and Bank of Texas will be kept as is at this time.

Collateral

The TexPool, TexStar, and TexasCLASS funds are collateralized at the entire fund level by the entities that run them. Well Fargo balances are collateralized with $750K FDIC coverage (3 accounts) and $14,383,214 of pledged collateral. The City receives a detailed collateral report monthly. The Bank of Texas account is not cash, but are securities. The Cadence Bank balance is insured by FDIC coverage (up to $250k per account).

Consideration of Investment Strategy

Given the strength of the US economy and the high interest rates for T-Bills, staff recommends opening a brokerage account with Hilltop Securities (an approved provider per the current City Investment Policy) and Wells Fargo as holding agent for the purchase of one $5M 3-month T-Bills, and $112M in 6-month T-bills (five $20M and one $12M). Hilltop Securities charges a small commission on the purchase by reducing the interest rate on the bonds, and Wells Fargo charges a small holding fee based on the number of CUSPIDs. This transaction would result in 7 CUSPIDs.

Recommendation to Mayor and Council

Recommend acceptance of investment report, opening of a brokerage account with Hilltop Securities, and purchase of securities as portrayed in the Investment Strategy above.

Certification

This quarterly report for the quarter ending December 31, 2022, is in compliance with the Investment Policy of the City of Hutto Texas dated November 17, 2022 and the State of Texas Public Funds Investment Act (Chapter 2256, Texas Government Code).

LaMar Kemp, CGFO Senior Accountant	Christina Bishop Controller	Anne LaMere, CPA, CGMA, CPM Interim Finance Director

INVESTMENT POLICY
THE CITY OF HUTTO, TEXAS

November 17, 2022

INVESTMENT POLICY OF THE CITY OF HUTTO TEXAS
November 17, 2022

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INVESTMENT POLICY OF THE CITY OF HUTTO TEXAS

November 17, 2022

I. PURPOSE

A. Formal Adoption

This investment policy, when reviewed and adopted by the City Council of Hutto, on November 17, 2022 will replace the adopted Investment Policy dated the 16th of September, 2021. This Investment Policy satisfies the statutory requirements of the Public Funds Investment Act (Chapter 2256, Texas Government Code) (the "Act").

B. Scope

This Investment Policy applies to all investment activities of the City of Hutto (the "City") as carried out by the Investment Officers (defined in the Policy under "INVESTMENT POLICIES" Section IV (D) 1) and directed City staff, and to all assets of all funds of the City at the present time and any funds received in the future, *excluding the Employee Retirement Trust and the deferred compensation plan.* Any funds held in custody by the City shall be administered in accordance with the provisions of these policies unless expressly prohibited by law. This Policy establishes guidelines for those who can invest City funds, for how City funds will be invested, and for when and how a periodic review of investments will be made. In addition to this Policy, bond funds (as defined by the Internal Revenue Service) shall be managed by their governing resolution and all applicable State and Federal law.

II. INVESTMENT OBJECTIVES

A. Safety of Principal

The primary objective of all investment activity is the preservation of capital and the safety of principal in the overall portfolio. Each investment transaction shall seek to ensure first that capital losses are avoided, whether they are from defaults or erosion of market value.

B. Maintenance of Adequate Liquidity

The investment portfolio will remain sufficiently liquid to meet the cash flow requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements, investing in securities with active secondary markets, and maintaining appropriate portfolio diversification.

C. Diversification

The City will seek to diversify its portfolio, as appropriate. This will be done to manage the risk of loss resulting from overconcentration of assets in a specific maturity, a specific issuer, or a specific class of investments. Investments of the City shall always be selected to provide for safety of principal and reasonable liquidity.

D. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to safety and liquidity.

E. Maturity

Portfolio maturities will be staggered, if market conditions are favorable, in a way to achieve an optimal rate of return, while at the same time to provide for the necessary liquidity to meet the City's cash needs. The maximum allowable stated final maturity of any individual investment owned by the City will be five years. [Sec. 2256.005 (b) (4) (B)]

F. Liquidation or Redemption before Maturity

The Investment Officers may liquidate or redeem an investment before maturity if:

- Market conditions present an opportunity for the City to benefit from the sale or redemption;
- Funds are urgently needed to meet unforeseen expenses, even if there is a loss of interest and/or principal due to the sale; or
- A security has lost its minimum required rating as an authorized investment.
  [Sec. 2256.021]

G. Quality and Capability of Investment Management

It is the City's policy to provide training required by the Public Funds Investment Act, Sec. 2256.008 and periodic training in investments for the Investment Officers through courses and seminars offered by professional organizations and associations in order to ensure the quality and capability of the City's Investment Officers in making investment decisions.

III. INVESTMENT STRATEGY

A. General

In conjunction with the annual Policy review, the City Council shall review the investment strategy for each of the City's funds. The investment strategy must describe the investment objectives for each particular fund according to the following priorities:

- investment suitability,
- preservation and safety of principal,
- liquidity,
- marketability prior to maturity of each investment,
- diversification, and
- yield

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds.

B. Investment Strategies and Guidelines by Fund Type

Investment guidelines by fund-type are as follows:

1. Current Operating Funds

Current operating funds require the greatest short-term liquidity of any of the fund types.

Therefore, diversified investment maturities shall provide monthly cash flow based on the anticipated operating needs of the City. Financial institution deposits, short-term investment pools, and money market mutual funds shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investment. Additionally, securities should have active and efficient secondary markets in the event of an unanticipated cash requirement.

According to City Policy, the weighted average days to maturity for the current operating fund portfolio shall not exceed 270 days and the maximum allowable maturity shall be two years. The Investment Officers will monitor average days to maturity and make portfolio changes as appropriate.

2. Bond Proceeds

Bond proceeds used for construction programs have reasonably predictable drawdown schedules. Therefore, investment maturities shall generally follow the anticipated cash flow requirements. Because of the potential for variance from the anticipated drawdown schedule and actual expenditures, securities shall have active and efficient secondary markets. Financial institution deposits, investment pools, and money market mutual funds shall provide readily available funds generally equal to or greater than one month's anticipated cash flow needs, or a competitive yield alternative for short-term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a flexible repurchase agreement.

Market conditions and the arbitrage regulations may influence the attractiveness of locking in fixed-rate investments for bond proceeds. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the City is best served by locking in most investments. If the arbitrage yield cannot be met or exceeded, concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield.

3. Repair and Replacement Funds

The investment maturity of repair and replacement funds shall generally be limited to the anticipated cash flow requirement according to any budgeted project schedule. Market conditions and the anticipated spending schedule shall determine the maximum investment periods. Investments shall be diversified as to maturity and type with a portion being highly marketable or liquid to cover the unpredictability of emergency repairs. The Investment Policy restricts the maximum maturity of individual investments to two years and the maximum weighted average days to maturity of the fund to one year.

4. Debt Service Funds

Debt service funds shall be invested to ensure adequate funding for each consecutive debt service payment. The Investment Officers shall invest in such a manner as not to exceed an "un-funded" debt service date with the maturity of any investment security. The predictability of each payment reduces the need for security diversification, marketability, and fund liquidity. Therefore, market conditions shall determine the attractiveness of the eligible investments.

5. Bond Reserve Funds

Bond reserve funds have no anticipated expenditures. The funds are deposited to provide annual debt service payment protection to the City's bondholders. The funds are "returned" to the City at the final debt service payment. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and maturity selection. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the City is best served by locking in most investments. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields. Maturities shall generally not exceed the call provisions of the bond issue.

Bond resolution constraints and insurance company restrictions may create issue-specific considerations in addition to the Investment Policy. Annual mark-to-market requirements or specific maturity and average life limitations will influence the attractiveness of market risk and reduce the opportunity for maturity extension.

6. Operating Reserve Funds

The operating reserve funds are essentially City savings. Reductions are generally not anticipated. Therefore, the predictability of the cash requirements of other City funds will govern the appropriate maturity mix. Market conditions, City financial condition, and risk/return analysis may extend the maximum maturity on individual investments to five years and the weighted average days to maturity to three years.

7. Fiduciary Funds

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others. The funds principal therefore cannot be used to support the government's own programs. Since the purpose of these funds is for investment purposes only, market conditions and risk/return analysis allow for a maximum maturity on individual investments of five years.

IV. INVESTMENT POLICIES

A. Eligible Investments

Investments described below are authorized by Chapter 2256, Texas Government Code as eligible securities for the City. The purchase of specific issues may at times be restricted or prohibited by the Investment Officers. City funds governed by this Policy may be invested in:

1. Obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks, but excluding principal-only and interest-only mortgage backed securities, collateralized mortgage obligations, and real estate mortgage investment conduits.

2. Direct obligations, the principal and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including any obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC).

3. Obligations of states, agencies, counties, cities, and other political subdivisions of any State having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less that "A" or its equivalent.

4. Fully collateralized repurchase agreements having a defined termination date, placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas, and secured by obligations described by 1-3, above which are eligible investments under the Public Funds Investment Act, pledged with a third party selected or approved by the City, and having a market value of not less than the principal plus accrued interest of the funds invested. The term includes direct security repurchase agreements entered into by the City and reverse repurchase agreements only obtained in connection with investment by the City in an Eligible Investment Pool or Money Market Mutual Fund. A signed Master Repurchase Agreement, or similar agreement, shall govern all City repurchase agreement transactions of this section.

5. Certificates of deposit, and other forms of deposit, issued by State and national banks that have their main office or a branch in Texas that are:

a. guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor, or, secured by obligations that are described by 1-3 above, which are intended to include all direct Federal agency or instrumentality issued mortgage backed securities, but excluding those mortgage-backed securities of the nature described in Section 2256.009(b) of the Texas Government Code, that have a market value of not less than the principal plus accrued interest of the deposits, or in any other manner and amount provided by law and this Policy for deposits of the City;

b. governed by a Depository Contract that complies with Federal and State regulation to properly secure a pledged security interest, and,

c. solicited for bid verbally, in writing, electronically, or any combination of those methods.

6. Money market mutual funds registered with the Securities & Exchange Commission, that adheres to Securities & Exchange Commission Regulation 2a-7, that fully invests dollar-for-dollar all City funds without sales commissions or loads, and whose investment objectives include seeking to maintain a stable net asset value of $1.0000 per share. The City may not invest funds under its control in an amount that exceeds 10% of the total assets of individual money market mutual fund. [Sec. 2256.014(c)]

7. Eligible Investment Pools as defined in Section 2256.016 of the Texas Government Code provided that (a) investment in the particular pool has been authorized by the City Council; (b) the pool shall have furnished the Investment Officers or other authorized representatives of the City an offering circular containing the information required by Section 2256.016(b) of the Government Code; (c) the pool shall furnish to the Investment Officers or other authorized representatives of the City investment transaction confirmations with respect to all investments made with it; (d) the pool shall furnish to the Investment Officers or other authorized representatives of the City monthly reports that contain the information required by Section 2256.016(c) of the Government Code; (e) the pool shall mark its portfolio to market daily and stabilize at a $1.00 net asset value; (f) the pool's assets shall consist exclusively of the obligations allowed by the Act; (g) and whose investment philosophy and strategy are consistent with this Policy and the City's ongoing investment strategy.

B. Protection of Principal

The City shall seek to control the risk of loss due to the failure of an investment issuer or grantor. Such risk shall be controlled by investing only in the safest types of investments as defined in the Policy, by qualifying the broker/dealers and financial institutions with whom the City will transact business, by collateralization as required by law, and through portfolio diversification by maturity and type.

The Investment Officer shall periodically monitor rating changes of investments. The City shall take prudent measures to liquidate any investment that is downgraded to less than the minimum rating required. Pursuant to the Act, the City is not required to liquidate investments that were authorized investments at the time of purchase.

The purchase of individual securities shall be executed "delivery-versus-payment" through the City's Safekeeping Agent. By so doing, City funds are not released until the City has received, through the Safekeeping Agent, the securities purchased.

1. Collateralization

Consistent with the requirements of State law, the City requires all financial institution deposits to be federally insured or collateralized with eligible securities, letter of credit, or FDIC insurance. Financial institutions serving as City depositories will be required to sign a depository or collateral agreement with the City. The custodial portion of the agreement shall define the City's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- the agreement must be in writing;
- the agreement has to be executed by the depository and the City contemporaneously with the acquisition of the asset;
- the agreement must be approved by the Board of Directors or the loan committee of the depository and a copy of the meeting minutes must be delivered to the City; and
- the agreement must be part of the depository's "official record" continuously since its execution.

Repurchase agreements must also be secured in accordance with State law. Each counter - party to a repurchase transaction is required to sign a copy of the Securities Industry and Financial Markets Association (SIFMA) Master Repurchase Agreement, or similar agreement, as approved by the City. An executed copy of this agreement must be on file before the City will enter into any counterparty transaction.

a. Allowable Collateral

Acceptable forms of collateral are limited to those authorized by the Act and the Public Funds Collateral Act (Section 2257, Texas Government Code), as amended, and meet the constraints of this Policy.

b. Collateral Levels

For pledged securities, the market value of the principal portion of collateral pledged for deposits must at all times be equal to or greater than 102% of the total amount of deposits plus any accrued interest, less the applicable level of FDIC insurance. For deposits, the

City may accept a letter of credit issued by a U.S. Agency or Instrumentality. The value of the letter of credit must be equal to or greater than 100% of the total amount of deposits plus any anticipated interest, less the insurance provided by the FDIC.

c. Monitoring Collateral Adequacy

The City shall require monthly reports and confirm market values of pledged securities from independent sources. The Investment Officers will monitor adequacy of collateralization levels to verify market values and total collateral positions.

d. Additional Collateral and Securities

If the value of the securities pledged falls below the required collateral level, the financial institution must pledge additional securities no later than the end of the next succeeding business day.

e. Collateral Substitution and Release

Collateralized deposits and repurchase agreements often require substitution of collateral. Substitution is allowable if the substituted security's value is equal to or greater than the required security level, but should be limited, if possible, to minimize potential administrative problems. The City's Investment Officers must approve the release of collateral prior to its removal from the custodial account in accordance with the terms of the depository or collateral agreement.

2. Safekeeping

The City shall contract with a third-party safekeeping agent for the safekeeping of securities owned by the City as a part of its investment portfolio. The securities will be held in an account in the City's name as evidenced by safekeeping receipts of the institution with which the securities are deposited.

C. Investment Advisors and Broker/Dealers

Investment selection for all funds shall be based on legality, appropriateness, liquidity, and risk/return considerations. All City investment portfolios shall be actively managed by attempting to optimize investment earnings within policy guidelines.

All investments made by the City will be made through either a City depository bank, an approved broker/dealer, or a financial institution with a main office or branch in the state of Texas. A list of at least three broker/dealers will be maintained in order to assure competitive bidding. The Investment Officers will establish criteria to evaluate Investment Advisors and Broker/Dealers, including:

1. Adherence to the City's policies and strategies;
2. Investment performance and transaction pricing within accepted risk constraints;
3. Responsiveness to the City's request for services, information, and open communication;
4. Understanding of the inherent fiduciary responsibility of investing public funds; and
5. Similarity in philosophy and strategy with the City's objectives.

Selected Investment Advisors and Broker/Dealers shall provide timely transaction confirmations and monthly portfolio reports.

City Council shall, at least annually, review, revise, and adopt a list of qualified broker/dealers that are authorized to engage in investment transactions with the City (see Exhibit A). Broker/Dealers eligible to transact investment business with the City shall be presented a written copy of this Investment Policy.

Additionally, the registered principal of any investment pool or discretionary investment manager seeking to transact investment business with the City shall execute a written instrument substantially to the effect that the registered principal has:

- received and reviewed this Investment Policy, and
- acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the City in accordance with the Act.

The City shall not enter into an investment transaction with a pool or investment manager prior to receiving the written instrument described above.

The City may select, through City Council approval, an Investment Advisor to advise the City in the investment of City funds and other responsibilities including but not limited to broker/dealer compliance, investment selection, competitive bidding, investment reporting, and investment documentation. The Investment Advisor must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor's Act of 1940 as well as with the Texas State Securities Board.

An Investment Advisor, as defined by the Investment Advisor's Act of 1940, is any person who pursuant to a contract regularly furnishes advice with respect to the desirability of investing in, purchasing, or selling securities or other property.

An appointed Investment Advisor shall act solely in an advisory and administrative capacity, within the guidelines of this Investment Policy, and without any discretionary authority to transact business on behalf of the City.

Appointment of an Investment Advisor shall otherwise be according to the City's normal purchasing procedures for selecting professional services. The term of any Investment Advisor contract may not exceed two years. Any renewal or extension of the Investment Advisor contract must be made by the City Council by resolution.

D. Responsibility and Controls

1. Authority to Invest

The Finance Director, Controller and Senior Accountant are the "Investment Officers" of the City. As Investment Officers, they are authorized to deposit, withdraw, invest, transfer, execute documentation, and otherwise manage City funds according to the rules governing the investment of City funds provided in this Policy.

2. Investment Officer Required Training

The City’s Investment Officers shall:

a. attend at least one training session from an independent source approved by City Council as provided for in this Policy and accumulate at least 10 hours of instruction relating to the Investment Officers’ responsibilities within 12 months after taking office or assuming duties; and

b. attend at least one investment training session not less than once in a two-year period, that begins on the first day of the City’s fiscal year and consists of the two consecutive fiscal years after that date, and accumulate not less than 8 hours of instruction relating to investment responsibilities from an independent source approved by City Council as provided for in this Policy.

Approved independent training sources include:

- Center for Public Management at the University of North Texas
- Government Finance Officers Association (GFOA and GFOAT)
- Government Treasurers’ Organization of Texas (GTOT)
- Texas Municipal League (TML)
- Texas Society of Certified Public Accountants (TSCPA)
- Sponsors approved by the TSCPA and GFOA, GFOAT or GTOT, to provide CPE credits

Investment training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolios, and compliance with the Act.

3. Prudent Investment Management

The designated Investment Officers shall perform their duties in accordance with the adopted Investment Policy and internal procedures. The Investment Officers acting in good faith and in accordance with these policies and procedures shall be relieved of personal liability.

4. Standard of Care

The standard of care used by the City shall be the "prudent person rule" and shall be applied in the context of managing the overall portfolio within the applicable legal constraints. The Public Funds Investment Act states:

"Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived."

5. Liability of Investment Officers

The Investment Officers are not responsible for any loss of City funds through the failure or negligence of a depository. Sec. 113.005 Local Government Code does not release the Investment Officers from responsibility for a loss resulting from the official misconduct or negligence of the Investment Officers, including misappropriation of funds, or from responsibility for funds until a depository is selected, and the funds are deposited.

6. Standards of Ethics

The Investment Officers shall adhere to City's Code of Conduct and Financial Disclosure Policy. Additionally, the Investment Officers shall file with the Texas Ethics Commission and the City Council a statement disclosing any personal business relationship with an entity seeking to sell investments to the City or any relationship within the second degree by affinity or consanguinity to an individual seeking to sell investments to the City.

7. Establishment of Internal Controls

The Finance Director will oversee the maintenance of a system of internal controls over the investment activities of the City.

8. Reporting

a. Quarterly Report

Investment performance will be monitored and evaluated by the Investment Officers. The Investment Officers will provide a signed investment report compliant with the Act to the City Council at least quarterly. “Weighted average yield to maturity” shall be the portfolio performance standard presented in the report. Market price of the City investments in the report shall be valued by a source independent from the transaction. The investment report shall:

1. describe in detail the investment position of the City;

2. contain a summary statement of each pooled fund group that states the:

a. ending book and market value for the period; and

b. fully accrued interest for the reporting period;

3. state the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested;

4. state the maturity date of each investment;

5. state the fund for which each investment was purchased; and

6. state the compliance of the investment portfolio with the City's Investment Policy and the Public Funds Investment Act.

b. Annual Report and Audit

The City, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the City's Investment Policy and strategies. The quarterly reports shall also be formally reviewed by an independent auditor with the results of the review provided to the City Council by that auditor.

V. REVIEW AND AMENDMENT

The City Council shall review its investments policy and investment strategies on an annual basis. It shall be the duty of the Investment Officers to notify the City Council of any significant changes proposed in investment methods or procedures prior to their implementation. The Investment Policy, including a section on Investment Strategies shall be adopted annually by the City Council.

APPROVED this 17th day of November, 2022.

Mike Snyder, Mayor

ATTEST:

Angela Walton, City Secretary

Exhibit A

Authorized Broker/Dealer List

FHN Financial
Multi-Bank Securities
Hilltop Securities
Stifel Financial
Wells Fargo Securities

RESOLUTION NO. R-2022-102

A RESOLUTION OF THE CITY OF HUTTO, TEXAS, ADOPTING THE INVESTMENT POLICY DATED NOVEMBER 17, 2022; PROVIDING AN EFFECTIVE DATE; AND PROVIDING PROPER NOTICE & MEETING.

WHEREAS, the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (the "Act"), requires that cities adopt an investment policy and review it annually; and

WHEREAS, the City of Hutto last reviewed its policy on September 16, 2021; and

WHEREAS, the City Council wishes to amend its policy to align with the Act by adopting as the Investment Policy of the City of Hutto the policy attached hereto as Exhibit A (the "Investment Policy"); and

WHEREAS, the Investment Policy applies to all investment activities of the City of Hutto, and to all assets of all funds of the City of Hutto at the present time and any funds received in the future.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF HUTTO, TEXAS:

SECTION 1: The findings set forth in the recitals of this Resolution are hereby found to be true and correct and hereby adopted as findings of the City Council and are incorporated into the body of this Resolution as if fully set forth herein.

SECTION 2: The Hutto City Council hereby approves and adopts the amended Investment Policy, attached as Exhibit A, a copy of the same being attached hereto and incorporated herein for all purposes.

SECTION 3: This resolution shall become effective and be in full force and effect from and after the date of passage and adoption by the City Council, and upon approval, thereof, as prescribed by law.

SECTION 4: The City Council hereby finds and declares that written notice of the date, hour, place, and subject of the meeting at which this Resolution was adopted was posted and that such meeting was open to the public as required by law at all times during which this Resolution and the subject matter hereof were discussed, considered and formally acted upon, all as required by the Open Meetings Act, Chapter 551, Texas Government Code, as amended.

RESOLVED this 17th day of November, 2022.

CITY OF HUTTO, TEXAS

Mike Snyder, Mayor

ATTEST:

Angela Lewis, City Secretary

EXHIBIT "A"