



**INVESTMENT POLICY
THE CITY OF HUTTO, TEXAS**

October 16, 2025

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INVESTMENT POLICY OF THE CITY OF HUTTO TEXAS

October 16, 2025

I. PURPOSE

A. Formal Adoption

This investment policy, when reviewed and adopted by the City Council of Hutto, on October 16, 2025 will replace the adopted Investment Policy dated the 17th of October, 2024. 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 Act 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 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 the Act as eligible investments 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 than "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 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 financial institutions that have their main office or a branch in Texas that are:
 - a. guaranteed or insured by the FDIC, or the National Credit Union Share Insurance Fund (NCUSIF), or their successors, 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 Act, 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 Act 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 or NCUSIF 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 must 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. The City reserves the right to accept or reject any form

of pledged collateral, at its sole discretion.

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 or NCUSIF 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 or NCUSIF.

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, 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.

Broker/Dealers shall provide timely transaction confirmations and Investment Advisors shall provide quarterly 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 with 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 and Assistant Finance Director 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
- Council of Governments
- Government Finance Officers Association (GFOA and GFOAT)
- Government Treasurers' Organization of Texas (GTOT)
- Texas Municipal League (TML)
- Texas Society of Certified Public Accountants (TXCPA)
- Sponsors approved by the TXCPA 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 and adopt its Investment 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.

APPROVED this 16th day of October, 2025.

Mike Snyder, Mayor

ATTEST:

Laura Hallmark, City Secretary

Exhibit A

Authorized Broker/Dealer List

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