CITY OF HUTCHINS
INVESTMENT POLICY
November 18, 2024

I. PURPOSE

The purpose of this Investment Policy is to establish guidelines and policies controlling the investment of the funds for the City of Hutchins (the "City"). The Policy is designed to comply with Chapter 2256 of the Texas Government Code, the Public Funds Investment Act, (the "Act"), which requires the City to adopt a written Investment Policy regarding the investment of its funds and funds under its control. This Investment Policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the City's funds. All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

II. POLICY

It is the policy of the City that after allowing for the anticipated cash flow requirements of the City and giving due consideration to the safety and risk of investment, all available funds shall be invested in conformance with these legal and administrative guidelines, seeking to achieve reasonable interest earnings based on market conditions.

Effective cash management is recognized as essential to good fiscal management. Investment interest is a source of revenue to City funds. The City's investment portfolio shall be designed and managed in a manner intended to maximize this revenue source, to be responsive to public trust, and to be in compliance with legal requirements and limitations.

Investments shall be made with the primary objectives of:

1. Safety and preservation of principal
2. Maintenance of sufficient liquidity to meet operating needs
3. Diversification to minimize market risks
4. Public trust from prudent investment activities
5. Achievement of reasonable interest earnings

III. SCOPE

This Investment Policy applies to the investment activities of the City. All financial assets of the City, including the following fund types, shall be administered in accordance with the provisions of these policies.

- General Funds
- Enterprise Funds
- Capital Project Funds
- Debt Service Funds
- Debt Service Reserve Funds
- Special Revenue Funds
- Any new fund created by the City, unless specifically exempted from this Policy by law

IV. OBJECTIVES

The City shall manage and invest its cash with five objectives, listed in order of priority: safety, liquidity, diversification, public trust, and yield. The safety of the principal invested will always remain the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with State and local law.

The City shall maintain a comprehensive cash management program that includes collection of accounts receivable, vendor payment in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to ensure maximum cash availability and optimum yield on short term investments of pooled idle cash.

1. Safety - The primary objective of the City's investment activity is the preservation and safety of principal. Each investment transaction shall seek to first avoid capital losses, whether they arise from issuer defaults or erosion of market value.

2. Liquidity - The City's investment portfolio will remain sufficiently liquid to meet operating requirements. Liquidity shall be achieved by matching investment maturities with estimated cash flow requirements, maintaining liquid reserves and by investing in instruments with active secondary markets.

3. Diversification - The portfolio will be diversified by investment type and maturity to avoid market risks and issuer default, as appropriate.

4. Public Trust - Investment Officers shall act responsibly as public trust custodians and shall avoid transactions which might impair public confidence in the City's ability to govern effectively.

5. Yield (Optimization of Interest Earnings) - The investment portfolio shall be designed with the objective of attaining a reasonable market yield at all times, taking into account the investment risk constraints and liquidity needs of the City. Return on investment is of lesser importance compared to the safety and liquidity objectives described above.

V. INVESTMENT STRATEGIES

The City's basic investment strategy for all financial assets is to preserve principal. In order to achieve that objective, the City shall invest in instruments with limited credit risk and invest in maturities that do not exceed anticipated cash flow requirements.

The objective of liquidity stems from the need of the City to maintain available cash balances sufficient to cover financial outlays. Since the timing and amount of some financial disbursements are not predictable, fund-type strategies shall adjust for the certainty of projected cash flows.

It is also the policy of the City to diversify its investment portfolios. Whenever practical and appropriate, assets held in the investment portfolio shall be diversified to minimize the risk of loss resulting from one concentration of assets in a specific maturity, a specific issuer, or a specific class of investment.

City funds shall seek to achieve a competitive yield appropriate for each fund-type. A comparably structured treasury security portfolio shall represent the minimum yield objective. Yield objectives shall at all times be subordinate to the objectives of safety and liquidity.

1. General, or Business-type Funds

<u>Suitability-Any</u> investment eligible in the Investment Policy is suitable for General, Enterprise, or Operating-type funds.

<u>Safety of Principal</u> - All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, managing the weighted average days to maturity of each fund's portfolio to less than 270 days and restricting the maximum allowable maturity to two years will minimize the price volatility of the portfolio.

<u>Liquidity-</u> General, Enterprise, or Operating-type Funds require the greatest short-term liquidity of any of the fund-types. Demand deposit accounts, money market accounts, short-term investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

<u>Marketability-</u> Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.

<u>Diversification</u> - Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the City. Diversifying the appropriate maturity structure up to the two-year maximum will reduce interest rate risk.

<u>Yield</u> - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury-Bill portfolio will be the minimum yield objective.

2. Capital Projects Funds

<u>Suitability</u> - Any investment eligible in the Investment Policy is suitable for Capital Projects Funds.

<u>Safety of Principal</u> - All investments will be of high quality with no perceived default risk. Market price fluctuations will occur. However, by managing Capital Projects Funds to not exceed the anticipated expenditure schedule, the market risk of the overall portfolio will be minimized. No stated final investment maturity shall exceed the shorter of the anticipated expenditure schedule or three years.

<u>Liquidity</u> - Most capital projects programs have reasonably predictable draw down schedules. Therefore, investment maturities should generally follow the anticipated cash flow requirements. Demand deposit accounts, money market accounts, short term investment pools and money market mutual funds will provide readily available funds generally equal to 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.

Marketability- Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.

Diversification - Market conditions and arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for bond proceeds. Generally, if investment rates exceed the applicable cost of borrowing, the City is best served by locking in most investments. If the cost of borrowing cannot be exceeded, then current market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger amounts. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield.

Yield - Achieving a positive spread to the cost of borrowing is the desired objective, within the limits of the Investment Policy's risk constraints. The yield of an equally weighted, rolling six-month Treasury-Bill portfolio will be the minimum yield objective for non-borrowed funds.

3. Debt Service Funds

Suitability - Any investment eligible in the Investment Policy is suitable for Debt Service Funds.

Safety of Principal - All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, by managing Debt Service Funds to not exceed the debt service payment schedule the market risk of the overall portfolio will be minimized.

Liquidity - Debt Service Funds have predictable payment schedules. Therefore, investment maturities should not exceed the anticipated cash flow requirements. Demand deposit accounts, money market accounts, short term investments pools and money market mutual funds may provide 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 debt service payment. This investment structure is commonly referred to as a flexible repurchase agreement.

Marketability - Securities with active and efficient secondary markets are not necessary as the event of an unanticipated cash flow requirement is not probable.

Diversification - Market conditions influence the attractiveness of fully extending maturity to the next "unfunded" payment date. Generally, if investment rates are anticipated to decrease over time, the City is best served by locking in most investments. If the interest rates are potentially rising, then investing in shorter and larger amounts may provide advantage. At no time shall the debt service schedule be exceeded in an attempt to bolster yield.

Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury-Bill portfolio shall be the minimum yield objective.

4. **Debt Service Reserve Funds**

Suitability - Any investment eligible in the Investment Policy is suitable for Debt Service Reserve Funds. Bond resolution and loan documentation constraints and insurance company restrictions may create specific considerations in addition to the Investment Policy.

Safety of Principal - All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, by managing Debt Service Reserve Fund maturities to not exceed the call provisions of the borrowing will reduce the investment's market risk if the City's debt is redeemed and the Reserve Fund liquidated. No stated final investment maturity shall exceed the shorter of the final maturity of the borrowing or five years. Annual mark-to-market requirements or specific maturity and average life limitations within the borrowing's documentation will influence the attractiveness of market risk and influence maturity extension.

Liquidity - Debt Service Reserve Funds have no anticipated expenditures. The Funds are deposited to provide annual debt service payment protection to the City's debt holders. The funds are "returned" to the City at the final debt service payment. Market conditions and arbitrage regulation compliance determine the advantage of investment diversification and liquidity. Generally, if investment rates exceed the cost of borrowing, the City is best served by locking in investment maturities and reducing liquidity. If the borrowing cost cannot be exceeded, then current market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

Marketability - Securities with less active and efficient secondary markets are acceptable for Debt Service Reserve Funds.

Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Debt Service Reserve Funds. At no time shall the final debt service payment date of the bond issue be exceeded in an attempt to bolster yield.

Yield - Achieving a positive spread to the applicable borrowing cost is the desired objective. Debt Service Reserve Fund portfolio management shall operate within the limits of the Investment Policy's risk constraints.

VI. RESPONSIBILITY AND CONTROL

Delegation of Authority

The Hutchins City Council shall designate the City of Hutchins City Administrator and Finance Director as the Investment Officers. The Investment Officers shall establish procedures for the operation of the investment program consistent with this Investment Policy. The Investment Officers shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates. No person may engage in an investment transaction except as provided under the terms of this Investment Policy and the procedures established by the Investment Officers.

Training

In order to ensure the quality and capability of investment management, the Investment Officers shall attend investment training no less often than once every two years, aligned with the fiscal year end, and shall receive not less than 8 hours of total instruction relating to investment responsibilities.
Newly appointed Investment Officers must attend investment training consisting of at least 10 hours of total instruction within twelve months of the date that he or she assumed the Officer's duties.
The City approves the GFOA, GFOAT, GTOT, NTCOG, TCMA, TML, and UNT as independent sources for training.

Internal Controls

The Investment Officers are responsible for establishing and maintaining internal controls to protect the assets of the City from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that
(1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Annual Audit

Accordingly, within the scope of the annual audit, the City shall establish a process for annual independent review by an external auditor to assure compliance with this Policy and supporting procedures.

Prudence

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.

In determining whether an Investment Officer has exercised prudence in the performance of their duty, the determination shall be made taking into consideration:

- The investment of all funds, or funds under the City's control, over which the Officer had responsibility rather than a consideration as to the prudence of a single investment.
- Whether the investment decision was consistent with the written approved Investment Policy of the City.

The Investment Officer, if acting in accordance with written procedures and exercising due diligence, shall not be held personally liable for any specific investment's credit risk or market price changes, provided that these deviations are reported immediately, and the appropriate action is taken to control adverse developments.

Ethics and Conflict of Interest

The Investment Officers, and employees involved in the investment process, shall refrain from any personal business activity that would conflict with the proper execution and management of the investment program, or that would impair their ability to make impartial decisions.

Investment Officers shall disclose any personal or business relationship involving material interests in financial institutions with which the City conducts business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Investment Officers shall refrain from undertaking personal investment transactions with the same individual or firm with which business is conducted on behalf of the City.

Any Investment Officer of the City who has a personal business relationship with an organization or is related with the second degree by affinity or consanguinity to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship, in accordance with the Act, with the Texas Ethics Commission and the City Council.

Reporting

The Investment Officers shall prepare for the City Council an investment report on a quarterly basis that summarizes investment strategies employed in the most recent quarter and describes the portfolio in detail and summary information. This reporting shall be made in accordance with the Act.

The quarterly investment report shall include a summary statement of investment activity during the period. This summary will be prepared in a manner that will allow the City Council to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will include the following at a minimum:

- A listing of individual investments held at the end of the reporting period.
- Average weighted yield to maturity of portfolio.
- Beginning and ending book and market value for the reporting period.
- Fully accrued interest for the reporting period and total earnings for the period.
- The percentage of the total portfolio by type of investment.
- Statement of compliance of the City's investment portfolio with State law and the investment strategy and Policy approved by the City Council.

Market values will be obtained from reputable and independent sources.

"Weighted average yield to maturity" shall be the standard on which investment performance 1s calculated.

In conjunction with the annual audit, an independent auditor will perform a formal annual review of the quarterly reports with the results reported to the City Council by that auditor.

VII. SUITABLE AND AUTHORIZED INVESTMENTS

City funds may be invested only in the instruments described below, all of which are authorized and further defined by the Act. Investment of City funds in any instrument or security not authorized for investment under the Act is prohibited. With respect to authorized investments, this Policy is more restrictive than the Public Funds Investment Act. The City will not be required to liquidate an investment that becomes unauthorized subsequent to its purchase.

Authorized Investments

1. Obligations, including letters of credit, of the United States of America, its agencies and instrumentalities, including the Federal Home Loan Banks, but excluding those prohibited by the Act.

2. Certificates of Deposit and other evidences of deposit at a financial institution that
   a. has its main office or a branch office in Texas and is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor,
   b. is secured by obligations in a manner and amount provided by law for deposits of the City, or
   c. is placed incompliance with the requirements of the Act.

3. Fully collateralized repurchase agreements executed in compliance with the Act, under the terms of an executed Master Repurchase Agreement, and secured in accordance with this Policy.

4. SEC registered, no load money market mutual funds that comply with the requirements of State law and seek to maintain a stable $1.0000 net asset value.

5. AAA-rated, Texas local government investment pools, which meet all the requirements of the Act. Participation in any pool must be authorized by resolution of the City Council.

Investment Instruments Not Authorized

Investments including interest-only or principal-only strips of obligations with underlying mortgage-backed security collateral, or collateralized mortgage obligations with inverse floating interest rate coupons or a maturity date of over 10 years are strictly prohibited.

Competitive Environment

The City shall provide a competitive environment for individual investment transactions, and financial institution, money market mutual fund, and local government investment pool selections.

Maximum Maturity

The maximum dollar weighted maturity and state final maturity for each fund-type group is set forth in the investment strategies.

Delivery Versus Payment

Securities purchased by the City shall be settled into the City's safekeeping agent on a delivery versus payment (DVP) basis. DVP assures that City funds will not be released until the purchased security has been received. Securities will be held by an independent third-party safekeeping agent as evidenced by safekeeping receipts.

Loss of Required Rating

In the event an authorized investment loses its required minimum credit rating, all prudent measures will be taken to liquidate said investment.

VIII. COLLATERALIZATION AND SAFEKEEPING

All financial institution deposits shall be insured or collateralized in compliance with applicable State law. The City reserves the right, in its sole discretion, to accept or reject any form of insurance or collateralization pledged towards those deposits.

Collateralization

Financial institutions serving as City depositories will be required to sign a depository agreement with the City. The collateralized deposit 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 designated 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.

The written agreement will specify the acceptable collateral, require independent safekeeping of the collateral, only allow substitution of collateral of equal or greater value than the collateral being substituted, require City approval before release of investment securities held as collateral, and provide for original safekeeping receipts and complete monthly reporting of collateral, including the valuation of securities.

A clearly marked evidence of pledge must be supplied to the City and retained by the Investment Officers. A monthly collateral report provided by the custodian shall be reviewed by the Investment Officers to assure that the market value of the pledged securities is adequate.

Collateral Levels

For financial institution deposits, the market value of securities pledged as collateral for deposits must at all times be equal to or greater than 102% of the par value of the deposit plus accrued interest less the amount insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund (NCUSIF), or their successors. The depository shall be liable for monitoring and maintaining the collateral and collateral margins at all times. Letters of credit pledged as collateral shall at all times be equal to the total value of the deposits plus accrued interest less the applicable level of FDIC/NCUSIF insurance.

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.

Safekeeping

The City shall contract with a bank or banks for the safekeeping of securities owned by the City as 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.

IX. PRIMARY DEPOSITORIES, BROKER/DEALERS AND ADVISORS

Financial Institution Deposits

Primary depositories shall be selected through the City's banking services procurement process, which shall include a formal Request for Applications (RFA) issued in compliance with applicable State law. This contract can be extended as per the RFA specifications.

Authorized Broker/Dealers

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. Broker/dealers eligible to transact investment business with the City shall be presented a written copy of this Investment Policy.

Certification of Business Organizations

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 to preclude imprudent investment activities with the City.

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

Investment Advisors

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

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.

X. INVESTMENT POLICY ADOPTION

The City's Investment Policy shall be reviewed and adopted at least annually by resolution of the City Council. It is the City's intent to comply with State laws and regulations. The City's Investment Policy may be revised by Council consistent with changing laws, regulations, or the needs of the City. The City Council shall review and approve the Policy and investment strategies annually, approving any changes or modifications, at a legally scheduled meeting.