

**REQUEST FOR PROPOSALS**  
**BANK DEPOSITORY SERVICES**



**DUE DATE: JUNE 20, 2017 - 3:00 p.m.**

City of Justin  
415 N. College Ave.  
P.O. Box 129  
Justin, Texas 76247  
(940) 648-2541  
[www.cityofjustin.com](http://www.cityofjustin.com)

**CITY OF JUSTIN, TEXAS**  
**REQUEST FOR PROPOSAL**  
**BANK DEPOSITORY SERVICES**  
May 15, 2017

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CITY OF JUSTIN, TEXAS

REQUEST FOR PROPOSAL – BANK DEPOSITORY SERVICES

I. INTRODUCTION

The City of Justin (the “City”) is requesting proposals for a bank depository services contract with service to begin August 1, 2017 through September 30, 2020.

Through this contract, the City intends to minimize banking costs, improve operational efficiency, and maximize its investment capabilities. This Request for Proposal (RFP) represents the City's cash management goals and specifies all required qualifications, the banking services required, estimated activity volumes, the method and terms of compensation, submission instructions and contract award provisions. Qualified institutions are invited to submit a proposal.

II. PROPOSAL QUALIFICATIONS AND INSTRUCTIONS

***By submitting a proposal in response to this RFP, depositories will be deemed to agree to the mandatory contract and service provisions contained herein. The proposal submitted will be incorporated into and form the basis of the banking services contract.***

**1. Local Presence** - To assure a close working relationship and facilitate available services, only depository institutions with full depository services capabilities within the county limits of Denton/Tarrant Counties will be considered.

An electronic copy of this proposal is available on request.

**2. Schedule for Proposal Submission** - The City will make every effort to adhere to the following schedule.

June 20, 2017	Request for Proposal due
June 26, 2017	Decision by the City

**3. Proposal Submission** - To be eligible for consideration under this request, two complete hard copies and one electronic copy of your proposal shall be submitted by 3:00 pm local time on August 14, 2015 to the address below. Proposals received after this time will not be accepted. The proposal must be in a sealed envelope marked “Proposal for Bank Depository Services.” An accompanying transmittal letter must be signed by an individual authorized to bind the institution and state that the proposal is valid for 180 days from the submission date.

Proposals must be delivered by mail or in person to:

Josh Armstrong  
Finance Director  
City of Justin  
415 N. College Ave.  
P.O. Box 129  
Justin, Texas 76247

(940) 648-2541 x8  
[jarmstrong@cityofjustin.com](mailto:jarmstrong@cityofjustin.com)

4. **Selection Criteria** - The following criteria will be used by the City as the weighting basis for evaluation of the proposal and award recommendation.

- Banking Services
- Banking Services costs
- Interest Paid

5. **City Rights** - The City reserves the right to:

- waive any defect, irregularity or informality in the proposal or proposal procedures,
- reject any and all proposals,
- cancel and/or reissue this request for proposal, and
- modify deadlines.

6. **Additional Information** - The City reserves the right to request additional information or to meet with representatives from proposing organizations to discuss points in the proposal after opening of proposals.

7. **Proprietary Information** - To the extent permitted by law, proposals will be opened in a manner that avoids disclosure of the contents until after award of the contract. Proprietary information contained in the proposal should be designated as such on each page containing the restricted information.

8. **Fees and Charges** - The contract payments will be made on a **fee basis**. Within five (5) business days of receipt of the monthly account analysis, if no exceptions are found or objections are made by the City, the bank may direct debit the designated account for fees due.

All proposed fees will remain at the proposal price quoted for the duration of the five years of the contract period regardless of changes in service volumes during the period. Should new services not contemplated by this RFP be required during the contract period, those services will be provided at no more than the bank's then current published rate.

### III. FINANCIAL ENVIRONMENT OVERVIEW

The City currently maintains a general disbursement account which serves as the checking account for all City operating funds. The approximate number of checks issued annually is 2,500. Approximately three percent of the City's vendor payments are sent by electronic funds transfer. The approximate number of annual deposits is 550. The cash balance in the general disbursement is swept daily into an overnight investment account. The sweep account averages a daily balance of \$1,000,000. All proposals for sweeping funds or alternative account structures must be outlined and explained thoroughly in Section VI-1.

#### Account Structure and Description

The City intends to establish the following bank accounts:

ACCOUNT NAME	TYPE
General Operating	Checking with interest (Pooled)
Water Operating	Checking with interest (Pooled)
Court Security Fund	Money Market
Court Technology Fund	Money Market

Library Reserve  
Utility Deposits  
Property Tax  
Interest & Sinking  
Police Seizure Fund Account

Money Market  
Checking with interest  
Checking with interest (Pooled)  
Money Market - Bond Req.  
Savings with interest

The City also maintains four additional checking accounts – two for first responder’s accounts, one for debt service payments, and one for an economic development corporation. These accounts have minimal activity and maintain minimal cash balances.

Credit card payments are handled through a separate merchant services arrangement.

Any or all City funds may be maintained and invested outside this contract. The City will be under no obligation to maintain funds in the bank. The City will continue to direct liquid funds to pools or investments.

#### **IV. GENERAL STATEMENT OF BANKING SERVICES REQUIRED**

The banking services described in this RFP are directed toward four goals:

- ❖ safety of City funds and securities,
- ❖ 100% utilization of idle funds,
- ❖ efficient utilization of banking services, and
- ❖ minimization of banking costs for the City.

The City needs to make its banking services as efficient and cost effective as possible. A high priority will be productive automated services and reporting. The envisioned account structure is designed to capture the highest available returns on all funds on a daily basis and to minimize inter-account transfers along with minimizing costs.

#### **Collateral**

The City requires a bank that is fiscally strong and able to provide services on an uninterrupted basis. City funds are public funds and fall under provisions of the Public Funds Collateral Act. If funds are, for any reason not swept, all un-invested time and demand funds must be collateralized to 102% with securities authorized by the City. Authorized collateral includes US Treasuries and US Agencies including mortgage backed securities which pass the bank test. (See Section VI.11 for full collateral requirements.)

#### **V. FINANCIAL INSTITUTION QUALIFICATIONS**

***(The proposal must include a response to each question in Section V.)***

1. The bank’s CRA rating (along with its identifying number and the CRA rating agency), and
2. Describe the experience of the financial institution in providing similar services for other public clients.
3. List references from at least three current, comparable governmental clients using services similar to those requested in this RFP. Include a contact person, their title and telephone number.
4. Provide a proposed timeline for implementation of the contract, including activities and

responsibilities of the City and the bank.

5. Provide a copy of all agreements (even if not directly referenced in this RFP) which will be required to be executed under the contract, including any general depository or collateral agreements.

6. In accordance with statutes, each proposer shall review the City's Investment Policy and complete the required certification verifying that review (see Attachment A).

7. Briefly describe your institution's disaster recovery plan.

## VI. REQUIRED BANKING SERVICES

***The proposal must include a response to each of the questions in Section VI and all associated fees must be detailed on Attachment B in the format provided with pricing for a 5-year term. Additional attachments regarding fee schedules will not be considered or evaluated.***

**1. Consolidated Account Structure with Sweep Mechanism** – Under this contract the City anticipates a general disbursement account with all funds swept daily to a government money market fund. Interest should accrue and be credited to the account monthly.

1.1 Describe the bank's ability to provide such a structure.

1.2 Describe how sweep activity will be reported on a daily basis, if at all.

1.3 Describe how interest from the sweep will be reported (at the account level or otherwise).

A SEC registered government fund should be utilized for the sweep. The proposal must include the full name and CUSIP for the fund and a copy of the prospectus. Minimum balances and cut-off times should be provided as well as any requirements of the fund.

If the Bank cannot provide a sweep mechanism, or if alternative account types are proposed, describe the account structure proposed, including the type of accounts (interest bearing, money market, ZBA, etc.), along with the overall account structure.

1.4 Provide the proposed computation basis for interest bearing accounts, if applicable.

1.5 If alternatives using non-sweep accounts are proposed, the net cost effect should be indicated.

The City may be required or desire to open additional accounts or change accounts during the contract period. If this occurs, the new accounts shall be charged at the contracted fee schedule amount.

**2. Automated Cash Management Information Access** - The City requires (a) automated cash management services and (b) balance reporting for timely access to balance information and transactions. Minimum automated services should include stop pays, account transfers, ACH transactions, and wire transfers. Preferably, positive pay exceptions would be available on-line. Daily balance reporting should include detailed transactions and summary account information with closing ledger, available balances and one-day float, at a minimum.

2.1 Describe the bank's service capabilities and whether service is to be a direct link or web-based.

2.2 Fully describe the bank's automated reporting system, its capabilities and back-up provisions.

2.3 Provide access times and update times for daily information.

2.4 List all information available on-line at both summary and detail levels.

2.5 Submit samples of major screens and reports available and specify all City hardware and software requirements.

- 2.6 How many hours has the system been down in the last six months?
- 2.7 Describe the back-up process for on-line balance reporting.
- 2.8 Describe the bank's security features? Is there a dual PIN requirement? Can access be restricted by account and amount?

**3. Standard Deposit Services** - Standard commercial deposit services are required. The majority of deposits will be made to the general disbursement account. The City anticipates a daily deposit by employee/courier. The City does not encode checks. All deposits received by the bank's established deadline must be processed same day. The bank will guarantee immediate credit on all incoming wire transfers, on-us items, and U.S. government maturities and coupons, with all other checks clearing based on the bank's published availability schedule. Failure to credit the account accordingly will require payment reimbursement to the City at the then current Fed Funds rate.

- 3.1 What is the bank's availability schedule?
- 3.2 Describe the bank's provision for daytime or nighttime deposit drops.
- 3.3 Can the drive thru window be used for drop off of daytime deposits?
- 3.4 Where are deposit locations?
- 3.5 What security measures are used on deposits?
- 3.6 What is the cut-off to assure same day ledger credit?
- 3.7 What type of bank bag is required? What is the cost per bag?

**4. Standard Disbursing Services** - Standard disbursing services for all accounts are required to include the payment of all City checks without charge upon presentation. Because of the proliferation of fraudulent checks, if advance reconciliation (positive pay) services are not available or not chosen as a service under this contract, please state the bank's policy on the City's liability in the case of fraudulent checks.

- 4.1 Does the bank provide positive pay services? (See question #6 for further questions.)
- 4.2 Can the bank provide fraud control paper check stock?

**5. Wire Transfer Service** - Incoming wire transfers must receive same day credit. Wire initiation and monitoring should be available over the automated system. The City will require compensation for delays caused by bank errors at that day's Fed Funds rate.

- 5.1 List the methods of wire initiation available.
- 5.2 Describe the system to be used and the required repetitive and non-repetitive wire procedures and confirmations. Include a description of security provisions, PINS, and back-up systems
- 5.3 What secondary authorization features are available?
- 5.4 Is future dating of wires available and the storing of vendor information for repetitive wires?
- 5.5 State wire access times, incoming notification, posting times, and required authorizations.
- 5.6 State the bank's policy on the use of balances for outgoing wires in anticipation of daily activity or incoming wires. Include a copy of the bank's standard wire agreement as an attachment.

**6. Positive Pay** - Describe the bank's automated positive pay (advance reconciliation) services. The City will be using the positive pay feature for all bank accounts which issue checks.

- 6.1 Describe all information transfer requirements (tapes, disks, or transmission) and notification times.
- 6.2 What options are available for transmittal of individual check information or deletes to the bank?
- 6.3 Are teller checks verified against the file? How often is teller information updated?
- 6.4 If not verified, what is the process and security on OTC transactions?
- 6.5 How is exception information reported to the City? What is the default disposition? What

review or range criteria are available for exceptions?

- 6.6 If positive pay is planned but not available at this time, please provide the anticipated start date and whether the bank has the ability to provide reverse positive pay services temporarily.

**7. Optical Imaging** - Describe the bank's optical imaging process and what items are captured (checks, statements, deposited items, etc.).

- 7.1 Describe the service and provide sample reports and screen layouts.
- 7.2 Describe any City software or hardware requirements.
- 7.3 Describe all retrieval capabilities.
- 7.4 Is one annual CD created at year end?

**8. ACH Services** - ACH service is required. ACH is currently used for direct deposit of payroll. A payroll file is transmitted biweekly with approximately 45 transactions. ACH is also used for bank drafting of utility bill payments. A bank draft file is transmitted weekly for approximately 350 accounts. In addition, an ACH file is used for electronic vendor payments and is transmitted bi-weekly for approximately 25 payments.

- 8.1 Describe the bank's ACH service availability on-line.
- 8.2 State data transfer alternatives (transmission, web, or tape).
- 8.3 Provide required deadlines for file submittal.
- 8.4 What is the deadline for a Thursday payroll?
- 8.5 What process is used for reversals and corrections?
- 8.6 How is notification of ACH returns provided to the City?
- 8.7 Provide the Bank's scheduled settlement times for ACH files

**9. Account Reconciliation** - The City plans to evaluate all levels of reconciliation, although the City prefers to receive a transmitted file of paid items monthly. No return of the physical checks is required if image copies are available online.

- 9.1 Describe the level of reconciliation services available and automation alternatives.
- 9.2 Specify data transmission alternatives (tape, transmission, diskette).
- 9.3 State when reports will be available with partial reconciliation.
- 9.4 Are images available on-line? When? For how long?
- 9.5 Provide samples of account reconciliation reports.

**10. Investment of Idle Funds and Safekeeping Services** - All City investments will be made by the City or its adviser and instructions for safekeeping will be given to the bank by an authorized staff member. The bank will be required to provide book-entry safekeeping services. All securities must be cleared on a delivery versus payment (DVP) basis.

The City may choose to purchase time deposits from the bank, but all time deposits will be competitively bid.

**11. Collateral Requirements** - If, for any reason, all funds are not swept to overnight investments, collateral will be pledged against total deposits held and certain conditions must be met. A collateral agreement will be executed, regardless of a sweep arrangement; although, the City does not anticipate its use under the sweep structure.

- 11.1 Collateral must be held in an independent third party bank outside the bank's holding company.
- 11.2 All deposits will be collateralized at **102%** of principal plus accrued interest at all times, excluding FDIC insurance.

- 11.3 The bank is responsible for the continuous monitoring and maintaining of collateral and margin requirements.
- 11.4 Pledged collateral will be evidenced by original safekeeping receipts sent directly to the City by the custodian and the City will receive a report of collateral pledged including description, par, market value and cusip monthly.
- 11.5 Substitution rights will be granted if the bank obtains the City's prior approval and if substituting securities are received before previously pledged securities are removed from safekeeping.
- 11.6 The bank shall execute a tri-party safekeeping agreement with the City and the safekeeping bank for custody of pledged securities in full compliance with FIRREA.
- 11.7 Describe bank safekeeping arrangements proposed. If a correspondent bank is used, please stipulate and include name of the bank. Stipulate the custodian to be used for pledged securities.

**12. Account Analysis** - Monthly account analysis reports must be provided for each account and on a consolidated basis. Provide a sample account analysis and state when the analysis will be available each month. Describe the ability of the bank to provide the account analysis on-line and/or imaged.

**13. Monthly Statements** - The bank will provide monthly account statements on all accounts. Describe the ability of the bank to provide statements on-line and images of cancelled checks. State when the statements will be available each month. All accounts must be on a monthly cycle, and the cycle should begin on the first day of the month. Timeliness of statements is critical and will be grounds for termination of contract if not provided.

- 1.1 Provide a sample of the monthly statement to be used.

**14. Overdrafts** – Because of the limitation of pledged securities and staff time, the City must be concerned for placing investment orders and may sometimes do so before funds are considered collected by the bank. The City proposes to use the overdraft privilege to take care of this situation. State the bank's policy regarding overdraft charges and the fees, if any, proposed on a per item or per account basis.

**15. Insufficient Funds (NSF) Items** - Deposited NSF checks are to be automatically redeposited for payment, twice if necessary. Complete information must be provided daily on all NSF returned items including name and reason for return.

- 15.1 Describe the bank's NSF process and any limitations. Is the NSF information available on-line?
- 15.2 How many times can the item be re-deposited? How many times do you routinely re-deposit? If an item is re-deposited twice, will both transactions appear on the City's daily activity detail?

**16 Stop Payments** - An automated stop pay process is required. Describe the service and bank's policy on stop pays.

- 16.1 How long will stop pays remain in effect?
- 16.2 What is the deadline for same day action?
- 16.3 Will the system verify if the check has been cleared before accepting the stop pay?
- 16.4 Are tellers provided with stop pay information same day?
- 16.5 Provide the stop pay access times, deadlines, and any requirements.
- 16.6 What information on current and expiring stop pays is available on-line? When?

**17 Electronic Deposits** - The City utilizes an electronic deposit system for checks. The City

currently scans and archives all checks presented for payment and electronically submits the checks for deposit directly to the bank.

- 17.1 Explain in detail the bank's process in accepting the deposit of checks electronically. Include the cost, hardware and software requirements, and any other relevant information.

## VII. BANK COMPENSATION

The City anticipates to pay for all services on a fee basis. Fees will be paid as a debit to the designated account after a five day City review and approval period each month.

### **TERMS AND CONDITIONS**

1. The City of Justin will accept SEALED PROPOSALS Monday through Thursday, 8:00 a.m. – Noon. and 1:00 p.m. – 5:00 p.m. and Friday 8:00 a.m. to 3 p.m. Proposals must be received by the PURCHASING DEPARTMENT before the specified hour and date of the opening. At that time proposals shall be opened and names publicly read.
2. All sealed offers should be submitted on the original forms provided. Each proposal must be sealed and should be placed in a properly identified envelope with RFP number, time and date of RFP opening. Proposals mailed via courier must be sealed in a separate envelope marked with RFP number.
3. Late proposals will be UNOPENED. Late proposals will not be considered under any circumstances.
4. Proposals CANNOT be altered or amended after opening time. Any alterations made before opening time must be initialed by offeror or his authorized agent. No proposal may be withdrawn after opening without approval, and based on a written acceptable reason.
5. The City of Justin reserves the right to revise or amend the specifications prior to date set for opening proposals. Such revisions or amendments, if any, will be announced by amendments or addendum to these specifications. Copies of such amendments or addendum so issued will be furnished to all prospective offerors. If offeror demonstrates just reason for a change, the City of Justin must have at least five working days' notice prior to proposal opening date.
6. Should offeror find discrepancies in or omissions from the specifications or other documents or be in doubt as to their meaning, offeror should at once notify the Purchasing Department and obtain clarification prior to submitting a proposal.
7. Proposal shall be valid for ninety (90) days from opening date.
8. The City of Justin is exempt from taxes. **DO NOT INCLUDE TAX IN PROPOSAL.**
9. The City of Justin reserves the right to terminate this contract for any reason by notifying the Contractor/Supplier in writing thirty (30) days prior to the termination of this agreement. In the event the City terminates the awarded contract for breach or any other reason, the Proposer shall not be relieved of liability to the City for damages sustained by the City by reason of any breach of the contract by the successful Proposer or otherwise, and the City may withhold any payments to successful Proposer for the purpose of an offset until such time as the amount of damages due the City from the successful Proposer can be determined.
10. Offeror **MUST** give full firm name and address. Person signing proposal should show **TITLE** or **AUTHORITY TO BIND HIS FIRM IN A CONTRACT**. Authorized signature should appear on each page where space is provided.
11. All offerors **must meet or exceed the minimum specifications** to be considered as a valid proposal. The City of Justin reserves the right to accept or reject all or any part of any proposal, waive minor technicalities and award the proposal to the offeror who provides goods or services at the best value for the City of Justin.
12. If a proposal contains proprietary information, the offerors must declare such information as proprietary if Offeror does not want information to become public.
13. Proposals will be opened so as to avoid disclosure of contents to competing offerors and kept secret during the process of negotiation.
14. Purchase order number should be on original invoice and invoice sent to the City of Justin, 415 N. College Ave. P.O. Box 129, Justin, TX 76247; Attn: Accounts Payable or email at [jarmstrong@cityofjustin.com](mailto:jarmstrong@cityofjustin.com).

## EXHIBIT "A"

# CITY OF JUSTIN INVESTMENT POLICY

### INTRODUCTION

The purpose of this document is to set forth specific investment policy and strategy guidelines for the City of Justin in order to achieve the goals of safety, liquidity, yield, and public trust for all investment activity. The City Council of the City of Justin shall review and adopt, by resolution, its investment strategies and policy not less than every three years. The resolution shall include a record of changes made to either the investment policy or strategy. This policy serves to satisfy the statutory requirement (specifically the Public Funds Investment Act, Article 342a-2 V.T.C.S. (the "Act")) to define, adopt and review a formal investment strategy and policy.

### INVESTMENT STRATEGY

The City of Justin maintains portfolios, which utilize four specific investment strategy considerations, designed to address the unique characteristics of the fund groups represented in the portfolios:

- A. Investment strategies for operating funds and commingled pools (i. e. Tex-Pool) containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure, which will experience minimal volatility during economic cycles. This may be accomplished by purchasing high quality, short to medium-term securities which will complement each other in a laddered or barbell maturity structure. The dollar weighted average maturity of 365 days or less will be calculated using the stated final maturity date of each security.
- B. Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date which exceeds the debt service payment date.
- C. Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. Securities should be of high quality and, except as may be required by the bond ordinance specific to an individual issue, of short to intermediate-term maturities. Volatility shall be further controlled through the purchase of securities carrying the highest coupon available, within the desired maturity and quality range, without paying a premium, if at all possible.
- D. Investment strategies for special projects or special purpose fund portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. These portfolios should include at least 10% in highly liquid securities to allow for

flexibility and unanticipated project outlays. The stated final maturity dates of securities held will not exceed the estimated project completion date.

## **INVESTMENT POLICY**

### **I. SCOPE**

This investment policy applies to all financial assets of the City of Justin. These funds are accounted for in the City's Annual Audit Report (CAAR) and include:

- A. General Fund
- B. Water Fund
- C. Wastewater Fund
- D. Debt Service Funds
- E. Project Improvement Funds
- F. All Other Funds and Accounts

### **II. OBJECTIVES**

The City of Justin shall manage and invest its cash with four objectives, listed in order of priority: *Safety, Liquidity, Yield, and Public Trust*. The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with all Federal, State, and Local laws.

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 insure maximum cash availability and maximum yield on short-term investment of pooled cash.

#### **A. Safety**

The primary objective of the City's investment activity is the preservation of capital in the overall portfolio. Each investment transaction shall be conducted in a manner to avoid capital losses, whether they are from securities default or erosion of market value.

#### **B. Liquidity**

The City's investment portfolio shall be structured in order that the City is able to meet all financial obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets.

#### **C. Yield**

The City's cash management portfolio shall be designed with the objective of regularly exceeding

the average rate of return on U.S. Treasury Bills at a maturity level comparable to the City's weighted average maturity in days. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment policies.

#### E. Public Trust

All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction which might impair public confidence in the City's ability to govern effectively.

### III. RESPONSIBILITY AND CONTROL

#### A. Delegation of Authority and Training

Authority to manage the City's investment program is derived from a resolution of the City Council. The City's Treasurer is designated as the investment officer of the City. The investment officer is responsible for investment decisions and activities. The investment officer shall attend at least one training session relating to the officer's responsibility under the Act within 12 months after assuming duties. The investment officer will also be required to attend a training session not less than once every two years and receive 10 hours of training. Such training from an independent source shall be approved or endorsed by either the Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, the Texas Municipal League, or the North Central Texas Council of Governments.

#### B. Internal Controls

The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected 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.

Accordingly, the investment officer shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The results of this review shall be reported to the City Council. The internal controls shall address the following points:

- Control of collusion.
- Separation of transaction authority from accounting and record keeping.
- Custodial safekeeping.
- A voidance of physical delivery securities.
- Clear delegation of authority to subordinate staff members.
- Written confirmation for telephone (voice) transactions for investments and wire transfers.

- Development of a wire transfer agreement with the depository bank or third party custodian.

#### C. Prudence

The standard of prudence to be applied by the investment officer shall be the "prudent investor" rule, which states: *"Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not in speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived"* In determining whether an investment officer has exercised prudence with respect to an investment decision, 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 the prudence of a single investment.
- Whether the investment decision was consistent with the written investment policy of the City.

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

#### D. Ethics and Conflicts of Interest

City staff involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or that could impair the employee's ability to make impartial investment decisions. City staff shall disclose to the City Administrator, any material financial interests in financial institutions that conduct business with the City and they shall further disclose positions that could be related to the performance of the City's portfolio.

An investment officer of the City who has a personal business relationship with an organization seeking to sell an investment to the City shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree of affinity or consanguinity to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity.

### **IV. REPORTING**

#### A. Annual Report

Within sixty (60) days of the end of the fiscal year, the investment officer shall present an annual report on the investment program and investment activity.

## B. Methods

The annual investment report shall include a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last year. This management summary will be prepared in a manner that will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be prepared in compliance with generally accepted accounting principles. The report will include the following:

- A listing of individual securities held at the end of the reporting period. This list will include the name of the fund or pooled group fund for which each individual investment was acquired.
- Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period. Market values shall be obtained from financial institutions or portfolio reporting services independent from the broker/dealer from which the security was purchased.
- Additions and changes to the market value during the period.
- Fully accrued interest for the reporting period.
- Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks.
- Listing of investments by maturity date.
- The percentage of the total portfolio which each type of investment represents.
- Statement of compliance of the City's investment portfolio with State Law and the investment strategy and policy approved by the City Council.

## V. INVESTMENT PORTFOLIO

### A. Active Portfolio Management

The City shall pursue an active versus a passive portfolio management philosophy. That is, securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade. The investment officer will routinely monitor the contents of the portfolio, the available markets, and the relative value of competing instruments, and will adjust the portfolio accordingly.

### B. Investments

Assets of the City of Justin may be invested in the following instruments; provided, however, that at no time shall assets of the City be invested in any instrument or security not authorized for investment under the Act, as the Act may from time to time be amended. The City is not required to liquidate investments that were authorized investments at the time of purchase.

### C. Authorized Investments.

- Obligations of the United States of America, its agencies and instrumentalities, which have a liquid market with a readily determinable market value.
- Direct obligations of the State of Texas and agencies thereof.

- Other obligations, the principal of and interest on which are unconditionally guaranteed by the State of Texas or United States of America.
- Obligations of the States, agencies thereof, Counties, Cities, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm, and having received a rating of not less than “A” or its equivalent
- Certificates of Deposit of state and national banks domiciled in Texas, guaranteed or insured by the Federal Deposit Insurance or its successor or secured by obligations described in A through D above, which are intended to include all direct agency or instrumentality issued mortgage backed securities rated AAA by a nationally recognized rating agency, or by Article 2529b-1, V.T.C.S., and that have a market value of not less than the principal amount of the certificates.
- Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities pledged with a third party, selected by the Director of Finance, other than an agency for the pledger. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas. A Master Repurchase Agreement must be signed by the bank/dealer prior to investment in a repurchase agreement
- Joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law. Investment in such pools shall be limited to 15% of the City's entire portfolio. A pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

#### D. Not Authorized

The City's authorized investments options are more restrictive than those allowed by State law. State law specifically prohibits investment in the following investment securities.

- Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
- Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
- Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
- Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

#### E. Holding Period

The City of Justin intends to match the holding periods of investment funds with liquidity needs of the City. In no case will the average maturity of investments of the City's operating funds exceed one year. The maximum final stated maturity of any investment shall not exceed two years.

## F. Risk and Diversification

The City of Justin recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification that shall be achieved by the following general guidelines:

- Risk of issuer defaults is controlled by limiting investments to those instruments allowed by the Act, which are described herein.
- Risk of market price changes shall be controlled by avoiding over-concentration of assets in a specific maturity sector, limitation of average, maturity of operating funds investments to one year, and avoidance of over-concentration of assets in specific instruments other than U.S. Treasury Securities and Insured or Collateralized Certificates of Deposits.
- Risk of liquidity due to technical complications shall be controlled by the selection of securities dealers as described herein.

## VI. SELECTION OF BANKS AND DEALERS

### A. Depository

At least every three years a Depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP). In selecting a depository, the credit worthiness of institutions shall be considered, and the investment officer shall conduct a comprehensive review of prospective depository's credit characteristics and financial history.

### B. Certificates of Deposit

Banks seeking to establish eligibility for the City's competitive certificate of deposit purchase programs shall submit for review annual financial statements, evidence of federal insurance and other information as required by the investment officer.

### C. Securities Dealers

For brokers and dealers of government securities, the City shall select only those dealers reporting to the Market Reports Division of the Federal Reserve Board of New York, also known as the "Primary Government Security Dealers", unless a comprehensive credit and capitalization analysis reveals that other firms are adequately financed to conduct public business. Only brokers and dealers with a, Texas or Justin, Texas office shall be selected. Investment officials shall not knowingly conduct business with any firm with whom public entities have sustained losses on investments. All Securities dealers shall provide the City with references from public entities that they are currently serving. The investment officer shall adopt and annually review a list of qualified brokers authorized to engage in investment transactions with the entity.

All financial institutions and broker/dealers who desire to become qualified bidders for

investment transactions must supply the following as appropriate:

- Audited financial statements
- Proof of National Association of Securities Dealers (NASD) certification
- Proof of state registration
- Completed broker/dealer questionnaire
- Certification of having read the City's investment policy signed by a qualified representative of the organization.
- Acknowledgment that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and the organization.

Qualified representative means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

- For a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;
- For a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch or the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution; or
- For an investment pool, the person authorized by the elected official or board with authority to sign the certification on behalf of the investment pool.

#### D. Investment Pools

A thorough investigation of the pool is required prior to investing, and on a continual basis. All investment pools must supply the following information in order to be eligible to receive funds:

- The types of investments in which money is allowed to be invested.
- The maximum average dollar-weighted maturity allowed, based on the stated maturity date of the pool.
- The maximum stated maturity date any investment security within the portfolio.
- The objectives of the pool.
- The size of the pool.
- The names of the members of the advisory board of the pool and the dates their terms expire.
- The custodian bank that will safe keep the pool's assets.
- Whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market place fluctuation.

- The name and address of the independent auditor of the pool.
- The requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool.
- The performance history of the pool, including yield, average dollar weighted maturities, and expense ratios.
- A description of interest calculations and how interest is distributed, and how gains and losses are treated

An annual review of the financial condition and registration of qualified bidders will be conducted by the investment officer.

## **VII. SAFEKEEPING AND CUSTODY**

### **A. Insurance or Collateral**

All deposits and investments of City funds other than direct purchases of U.S. Treasuries or agencies shall be secured by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC or FSLIC. Evidence of the pledged collateral shall be maintained by the investment officer or a third party financial institution. Repurchase agreements shall be documented by a specific agreement noting the collateral pledge in each agreement. Collateral shall be reviewed monthly to assure that the market value of the pledged securities is adequate.

### **B. Safekeeping Agreement**

Collateral pledged to secure deposits of the City shall be held by a safekeeping institution in accordance with a Safekeeping Agreement which clearly defines the procedural steps for gaining access to the collateral should the City of Justin determine that the City's funds are in jeopardy. The safekeeping institution, or Trustee, shall be the Federal Reserve Bank or an institution not affiliated with the firm pledging the collateral. The safekeeping agreement shall include the signatures of authorized representatives of the City of Justin, the firm pledging the collateral, and the Trustee.

### **C. Collateral Defined**

The City of Justin shall accept only the following securities as collateral:

- FDIC and FSLIC insurance coverage.
- A bond, certificate of indebtedness, or Treasury note of the United States that is guaranteed as to principal and interest by the United States.
- Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.

- A bond of the State of Texas or of a county, city or other political subdivision of the State of Texas having been rated as investment grade (investment rating no less than “A” or its equivalent) by a nationally recognized rating agency with a remaining maturity of ten (10) years or less.

D. Subject to Audit

All collateral shall be subject to inspection and audit by the investment officer or the City's independent auditors.

E. Delivery vs. Payment

Treasury Bills, Notes, Bonds, Repurchase Agreements and Government Agencies' securities shall be purchased using the delivery vs. payment method. That is, funds shall not be wired or paid until verification has been made that the correct security was received by the Trustee. The security shall be held in the name of the City or held on behalf of the City. The Trustee's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the City.

**VIII. INVESTMENT POLICY ADOPTION**

The City of Justin investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed for effectiveness on an annual basis and any modifications will be approved by the City Council. The City Council shall review these investment policies and strategies not less than every three years.

EXHIBIT "B"

-CERTIFICATION-

I hereby certify that I have personally read the investment policies and objectives of the City of Justin and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our firm and Justin. All sales personnel will be routinely informed of your investment objectives, horizon, outlook, strategies, and risk constraints whenever we are so advised. We will notify you immediately by telephone and in writing in the event of a material adverse change in our financial condition. We pledge to exercise due diligence in informing you of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_

Title: \_\_\_\_\_

(Countersigned by company president or person in charge of government securities operations.)

Signed: \_\_\_\_\_ Date: \_\_\_\_\_

Title: \_\_\_\_\_

EXHIBIT "C"

**CITY OF JUSTIN  
INVESTMENT POLICY AFFIDAVIT**

Name of Organization: \_\_\_\_\_

Address: \_\_\_\_\_

Telephone: \_\_\_\_\_ Fax: \_\_\_\_\_

I hereby certify that I am the qualified representative as defined in Section 2256.002(10) of the Act of the above named business organization seeking to sell an authorized investment to the City of Justin, Texas.

I have received and have thoroughly reviewed the City of Justin Investment Policy.

I acknowledge that the above named business organization of which I am a qualified representative has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the City of Justin and the organization that are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards..

I acknowledge that this instrument is transacted to comply with Chapter 2256, Government Code.

Name: \_\_\_\_\_

Date: \_\_\_\_\_

Title: \_\_\_\_\_