

REQUEST FOR PROPOSALS
BANK DEPOSITORY SERVICES

RFP#: FY20-003



DUE DATE: AUGUST 19, 2020 - 3:00 p.m.

City of Ferris
100 Town Plaza
Ferris, Texas 75125
(972) 544-2110
www.ferristexas.gov

CITY OF FERRIS, TEXAS
REQUEST FOR PROPOSAL
BANK DEPOSITORY SERVICES
July 28, 2020

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CITY OF FERRIS, TEXAS

REQUEST FOR PROPOSAL – BANK DEPOSITORY SERVICES

I. INTRODUCTION

The City of Ferris (the “City”) is requesting proposals for a bank depository services contract with service to begin October 1, 2020 through September 30, 2023.

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 will be considered. The proposal submitted will become a part of the final contract.

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.

August 19, 2020
September 7, 2020

Request for Proposal due
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 by August 19, 2020 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:

Bobby LaBorde
Chief Financial Officer
City of Ferris
100 Town Plaza.
Ferris, Texas 75125
(972) 750-0833

bobbylaborde@ferristexas.gov

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 offered | 40% |
| • Banking Services costs | 30% |
| • Safety and creditworthiness of bank | 20% |
| • Interest Paid | 10% |

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 three (3) 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. 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 strive to 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 other authorized 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 Agencies and US Treasuries and 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 3-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 or courier service. 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 dropping 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 50 transactions. ACH is also used for bank drafting of utility bill payments. A bank draft file is transmitted weekly for approximately 35 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 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.

- 13.1 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 does not utilize an electronic deposit system for checks; however, would want to do so in the future. The City currently produces manual deposit slips and deposits into the bank daily but would likely give preference to depository with electronic depositing options.

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 paying 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 Ferris will accept SEALED PROPOSALS Monday through Thursday, 8:00 a.m. – Noon. and 1:00 p.m. – 5:00 p.m. Proposals must be received by the FINANCE 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 Ferris 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 Ferris 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 Ferris is exempt from taxes. DO NOT INCLUDE TAX IN PROPOSAL.
9. The City of Ferris 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.

City of Ferris
Depository Services RFP

11. All offerors **must meet or exceed the minimum specifications** to be considered as a valid proposal. The City of Ferris 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 Ferris.

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 Ferris, 100 Town Plaza, Ferris, TX 76247; Attn: Accounts Payable or email at cindyenglish@ferristexas.gov

EXHIBIT "A" R-18-252

CITY OF FERRIS, TEXAS INVESTMENT POLICY

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INTRODUCTION

The purpose of this document is to set forth specific investment policy and strategy guidelines for the City of Ferris in order to achieve the goals of safety, liquidity, yield, and public trust for all investment activity. The City Council of the City of Ferris shall review its investment strategies and policy not less than annually. This policy serves to satisfy the statutory requirement (specifically the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act")) to define, adopt and review a formal investment strategy policy.

INVESTMENT STRATEGY

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

B. Investment strategies for operating funds and commingled pools 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 ladder 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.

C. 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.

D. 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. Such securities will tend to hold their value during economic cycles.

E. 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 high liquid securities to allow for flexibility and unanticipated project outlays. The stated final maturity dates of securities held should not exceed the estimated project completion date.

INVESTMENT POLICY

I. SCOPE

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

- General Fund
- Special Revenue Funds
- Internal Service Funds
- Capital Projects/Grants Funds
- Enterprise Funds

II. OBJECTIVES

The City of Ferris 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 State and Local Law.

The City shall maintain a comprehensive cash management program which 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.

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 defaults or erosion of market value.

Liquidity

The City's investment portfolio shall be structured such that the City is able to meet all 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.

Yield

The City's cash management portfolio shall be designed with the objective of regularly exceeding the average rate of return on three-month U.S. Treasury Bills. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment policies.

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

Delegation of Authority and Training

Authority to manage the City's investment program is derived from a resolution of the City Council. The City Manager or Designee is designated as investment officer of the City and is responsible for investment decisions and activities. The City Manager or Designee shall establish written procedures for the operation of the investment program, consistent with this investment policy. 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.

Internal Controls

The City Manager or Designee 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 City Manager or Designee shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- A. Control of collusion.
- B. Separation of transaction authority from accounting and record keeping.
- C. Custodial safekeeping.
- D. Avoidance of physical delivery securities.
- E. Clear delegation of authority to subordinate staff members.
- F. Written confirmation for telephone (voice) transactions for investments and wire transfers.
- G. Development of a wire transfer agreement with the depository bank or third-party

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 for 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 investment officer had responsibility rather than a consideration as to the prudence of 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.

Ethics and Conflicts of Interest

City staff involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair the ability to make impartial investment decisions. City staff shall disclose to the City Manager or Designee/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. City staff shall subordinate their personal financial transactions to those of the City, particularly with regard to timing of purchases and sales.

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 by 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 by the entity.

IV. REPORTING

Quarterly Reporting

The City Manager or Designee shall submit a signed quarterly investment report that summarizes current market conditions, economic developments and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent quarter, and describe the portfolio in terms of investment securities, maturities, risk characteristics, and shall explain the total investment return for the quarter.

Annual Report

Within 60 days of the end of the fiscal year, the City Manager or Designee shall present an annual report on the investment program and investment activity. This report may be presented as a component of the fourth quarter report to the Mayor and the City Council.

Methods

The quarterly 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 quarter. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be provided to the Mayor and the City Council. The report will include the following:

- A. A listing of individual securities held at the end of the reporting period.
- B. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period.
- C. Additions and changes to the market value during the period.
- D. Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmark.
- E. Listing of investments by maturity date.
- F. The percentage of the total portfolio which each type of investment represents.
- G. 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

Active Portfolio Management

The City shall pursue an active versus 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.

Investments

Assets of the City of Ferris 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.

I. Authorized

A. Obligations of the United States of America, its agencies and instrumentalities.

B. Direct obligations of the State of Texas and agencies thereof.

C. Other obligations, the principle of and interest on which are unconditionally guaranteed by the State of Texas and United States of America.

D. 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. However, should these investments be down rated to "A" or its equivalent, they will be sold.

E. 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.

F. 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 City Manager or Designee, other than an agency for the pledgor. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or bank domiciled in Texas.

G. Joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law.

II. Not Authorized

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

A. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.

B. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.

C. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.

D. Collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Holding Period

The City of Ferris 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 three years.

Investments in all funds shall be managed in such a way that the market price losses resulting from interest rate volatility would be offset by coupon income and current income received from the volume of the portfolio during a twelve-month period.

Risk and Diversification

The City of Ferris 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 which shall be achieved by the following general guidelines:

A. Risk of issuer default is controlled by limiting investments to those instruments allowed by the Act, which are described herein.

B. Risk of market price changes shall be controlled by avoiding overconcentration of assets in a specific maturity sector, limitation of average maturity of operating

investments to one year, and avoidance of overconcentration of assets in specific instruments other than U.S. Treasury Securities and Insured or Collateralized Certificates of Deposits.

C. Risk of illiquidity due to technical complications shall be controlled by the selection of securities dealers as described herein.

VI. SELECTION OF BANKS AND DEALERS

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 Director of Finance shall conduct a comprehensive review of prospective depositories credit characteristics and financial history. The City may consider applications received from a bank, credit union, or savings association that is not doing business within the municipality. The Council must take into consideration what is in the best interest of the municipality in establishing a depository.

Certificates of Deposit

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

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. 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 which they are currently serving.

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 registered principal of the organization
- acknowledgement 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

An annual review of the financial condition and registration of qualified bidders will be conducted by the City Manager or His/Her Designee.

VII. SAFEKEEPING AND CUSTODY

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 City Manager or Designee 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 weekly to assure that the market value of the pledged securities is adequate.

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 Ferris 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 Ferris, the firm pledging the collateral, and the Trustee.

Collateral Defined

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

A. FDIC and FSLIC insurance coverage.

B. A bond, certificate of indebtedness, or Treasury Note of the United States, or other evidence of indebtedness of the United States that is guaranteed as to principal and interest by the United States.

Subject to Audit

All collateral shall be subject to inspection and audit by the City Manager or His/Her Designee or the City's independent auditors.

Delivery vs. Payment

Treasury Bills, Notes, Bonds 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 Ferris investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed for effectiveness on an annual basis by the City Manager or Designee and any modifications will be recommended for approval to the City Council.

GLOSSARY of COMMON TREASURY TERMINOLOGY

Agencies: Federal agency securities.

Asked: The price at which securities are offered.

Bid: The price offered for securities.

Broker: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CDs are typically negotiable.

Collateral: Securities, evidenced of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Annual Audit: The official annual report for the City of Ferris. It includes four combined statements and basic financial statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

Coupon: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Debenture: A bond secured only by the general credit of the issuer.

Delivery versus Payment: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

Discount: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering

price shortly after sale also is considered to be at a discount.

Discount Securities: Non-interest-bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g. U.S. Treasury bills.

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Federal Credit Agencies: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's small business firms, students, farmers, farm cooperatives, and exporters.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to \$100,00 per deposit.

Federal Funds Rate: The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

Federal Home Loan Banks (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

Federal National Mortgage Association (FNMA): FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Open Market Committee (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

Federal Reserve System: The credit bank of the United States created by Congress and consisting of seven-member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

Government National Mortgage Association (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term "pass-throughs" is often used to describe Ginnie Mae.

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

Local Government Investment Pool (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

Master Repurchase Agreement: To protect investors, many public investors will request that repurchase agreements be preceded by a master repurchase agreement between the investor and the financial institution or dealer. The master agreement should define the nature of the transaction, identify the relationship between the parties, establish normal practices regarding ownership and custody of the collateral securities during the term of the investment, provide remedies in the case of default by either party and clarify issues of ownership. The master repurchase agreement protects the investor by eliminating the uncertainty of ownership and hence, allowing investors to liquidate collateral if a bank or dealer defaults during the term of the agreement.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable.

Money Market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued or traded.

Open Market Operations: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

Portfolio: Collection of securities held by an investor.

Primary Dealer: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks and a few unregulated firms.

Prudent Person Rule: An investment standard. 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 for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Qualified Public Depositories: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad Val Orem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (RP or REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Federal Reserve is said to be doing RP, it is lending money, that is, increasing bank reserves.

Safekeeping: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SEC Rule ISC3-I: See uniform net capital rule.

Secondary Market: A market made for the purchase and sale of outstanding issues following the initial distribution.

Securities & Exchange Commission: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Treasury Bills: A non-interest-bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

Treasury Bond: Long-term U.S. Treasury securities having initial maturities of more than ten years.

Treasury Notes: Intermediate term coupon bearing U.S. Treasury securities having initial maturities from one to ten years.

Yield: The rate of annual income return on an investment, expressed as a percentage. (a) Income Yield is obtained by dividing the current dollar income by the current market price of the security. (b) Net Yield or Yield to Maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Uniform Net Capital Rule: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash

EXHIBIT "B"

-CERTIFICATION-

I hereby certify that I have personally read the investment policies and objectives of the City of Ferris 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 Ferris. 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 FERRIS
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 Ferris, Texas.

I have received and have thoroughly reviewed the City of Ferris 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 Ferris 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: _____