



City of Saginaw

REQUEST FOR PROPOSAL BANK DEPOSITORY SERVICES

The City of Saginaw, Texas is soliciting sealed proposals from qualified banking institutions to provide Bank Depository Services. The initial contract period will begin April 1, 2022 and end March 31, 2025. By mutual agreement, the contract may be renewed for one additional two year period.

The proposal must be submitted in a sealed envelope and shall be marked “BID PROPOSAL FOR CITY DEPOSITORY – DO NOT OPEN UNTIL 4:00 PM, JANUARY 27, 2022”. The envelope shall be delivered to the office of Kim Quin, Finance Director, Saginaw City Hall, 333 W. McLeroy no later than 4:00 PM, January 27, 2022. Proposals received after this deadline cannot be considered.

Two complete copies of the proposal along with the bid bond check are required.

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INTRODUCTION

The City of Saginaw (the “City”) pursuant to Chapter 105, Texas Local Government Code is requesting proposals from eligible and qualified financial institutions to provide the City the banking services as described below. The services provided will be in accordance with this Request for Proposal (the “RFP”) and attachments. It is the City’s intent that a Bank Depository Services Agreement detailing the services to be provided will be duly executed between the City of Saginaw and the selected financial institution.

Any and all charges and fees associated with the Bank Depository Services Agreement must be clearly and accurately included in the RFP response. The charges and fees represented in the RFP response shall overrule any and all previous bank service or other agreements between the City and the financial institution, as they relate to the accounts and services included herein. The City will not be obligated by any charges and fees not clearly and accurately presented in the RFP response. Services initiated after consummation of the Bank Depository Services Agreement shall carry charges and fees mutually agreed to, in writing, by the City and the financial institution.

The philosophy incorporated into this RFP is to solicit bids for banking services currently utilized or considered by the City. The City intends to manage its funds to minimize service charges and optimize investment income as authorized by policy and permitted by state law. The City anticipates that future collected funds balances will be reduced and/or invested in available investment alternatives.

The new agreement period will be for a three-year period of April 1, 2022 through March 31, 2025, with a provision for one two-year continuation under the same terms and conditions of the contract. The agreement will also provide for a transition period not to exceed ninety (90) days for migration to a new bank at the end of the term.

The City reserves the right to open or close any number or type of accounts, as it deems necessary throughout the term of the agreement. Any fee charged for services not listed but later requested by the City will be mutually agreed upon in writing.

The Bank Depository Services Agreement is an important component of the treasury and cash management system of the City. From this perspective, the City is seeking a financial institution that is:

- ◆ Capable of providing the services required by the City at the least possible cost,
- ◆ Meets the requirements of Chapter 105 of the Texas Local Government Code,
- ◆ Willing to be attentive and responsive to the City’s financial matters, and
- ◆ Financially sound and meets the City’s requirements.

REQUEST FOR PROPOSAL

This RFP is intended to serve as the bid form for the Bank Depository Services Agreement. There are multiple blanks to fill in and questions to be answered. The evaluation of the bidder's proposal will be based on the responses included herein.

Exceptions, conditions, or qualifications to the provisions of the City's specifications or requirements must be clearly identified as such, with the reasons therefore, and alternate language proposed by bidder, if any, clearly stated and inserted in the appropriate place in the bid submission.

Each of these exceptions, conditions, or qualifications to the City's specifications may be included, as appropriate, in the Contract documents. Items and matters not explicitly excepted in this manner shall be deemed to be in conformance with the City's specifications.

The RFP also requests certain information to be attached and specifically labeled. Responses must be complete, address all aspects of the RFP, and include all requested information to receive full consideration by the City in the selection process. The City may choose to waive any irregularities in any responses received and reserves the right to reject all proposals.

Please note the following calendar of events for the dates and times of key elements in the bid procedure.

CALENDAR OF EVENTS

<u>TARGET DATE</u>	<u>DESCRIPTION OF EVENTS</u>
January 6, 2022	RFP advertised and posted to the City website.
January 27, 2022	Responses due 4:00 P.M. CDT at the City Hall.
February 15, 2022	City Council consideration of contract award.
April 1, 2022	New Bank Depository Services Agreement period begins.

CRITERIA FOR EVALUATION

The City shall carefully review the submitted proposals. The staff recommendation to the City Council shall be based on the proposal determined to be “the best value” for the City. The evaluation of the proposals will be made based on, but not limited to, the following criteria, in no particular order of priority:

- ◆ Ability to perform and provide the required and requested services;
- ◆ Reputation of bidder and quality of services;
- ◆ Cost of services;
- ◆ Funds availability;
- ◆ Interest paid on interest bearing accounts and deposits;
- ◆ Earnings credit calculation on account balances;
- ◆ Completeness of bid and agreement to points outlined in the RFP;
- ◆ Convenience of locations;
- ◆ Previous service relationship with the City; and
- ◆ Financial strength and stability of institution.

ACCOUNT ACTIVITIES

The City anticipates establishing an account configuration that consists of the following bank accounts:

- Consolidated Cash Account (the City's pooled funds account)
- Payroll Account
- Accounts Payable Account
- Credit Card Depository Account
- Flexible Spending Account
- Benefits Trust Account

The Consolidated Cash Account serves as the City's master operating account. It is a demand deposit type account into which wires and ACH transfers are received, bank deposits are made including scanned checks, and receipts from direct account debits are deposited. From this account, wire and ACH transfers are initiated, and returned checks and deposit corrections are posted. It is the master funding account for the zero balance payroll account, accounts payable account, flexible spending account, and benefits trust account.

The Payroll Account is a zero balance account funded by the consolidated cash account. From this account the ACH files are prepared for employee's direct deposit. There are no checks written on this account. The City has approximately a 174 person payroll paid bi-weekly with an approximate amount of \$564,000 per month. The ACH file is prepared and transmitted on Wednesday for employee payment receipt on Friday.

The Accounts Payable Account is a zero balance account that issues checks for the accounts payable of the City and is funded by the consolidated cash account. Checks are issued weekly, on Friday. The approximate number of checks per month is 200, totaling \$3,100,000.

The Flexible Spending Account is a zero balance account funded from the consolidated cash account. No checks are issued from this account. There are two types of ACH debits processed for the card issuance and for reimbursements.

The Credit Card Account receives electronic deposits from our credit card processor. Credit card processing fees, chargebacks, and a monthly transfer to the Consolidated Cash account are debited from this account.

The Benefits Trust Account is a zero balance account funded from the consolidated cash account. No checks are issued from this account. There are two monthly ACH debits for employee insurance payments made from this account.

Estimated historic activity and balance information from each of these accounts is tabulated in Exhibit 1 and targeted on Schedule 1. Actual activity could vary significantly.

BANK DEPOSITORY SERVICES

The City requests information on the following services:

- A. On-Line Banking Services – The City **requires** on-line banking services accessible through the internet that at a minimum include balance reporting, initiation of ACH debits and credits and wire transfers, submission of positive pay files, account transfers and placement of stop payments on checks. The minimum balance reporting information should be for intra-day and previous business day and include: ledger balance, total credits, total debits, and detail debits and credits. Historical information should be maintained on-line and accessible for three months.

☐

Yes, can provide as requested/required.

☐

No, cannot provide as requested/required.

Comment. _____

- B. Zero Balance – The City **requires** the use of four zero balance accounts for its payroll, accounts payable, benefit trust, and flexible spending accounts.

☐

Yes, can provide as requested/required.

☐

No, cannot provide as requested/required.

Comment. _____

- C. Positive Pay - The City **requires** positive pay services on the Accounts Payable Account. The Bank would only honor those checks issued by the City that are pre-authorized through the positive pay system. Payment verification criteria will be date, check number, amount, and payee name. Positive Pay files will be transmitted electronically.

☐

Yes, can provide as requested/required.

☐

No, cannot provide as requested/required.

Comment. _____

- D. ACH Debit Blocking – The City **requires** ACH debit blocking capabilities on its accounts, with the ability to selectively permit specified ACH debits on certain accounts and restrict all ACH debits from certain accounts.

☐ Yes, can provide as requested/required.

☐ No, cannot provide as requested/required.

Comment. _____

- E. “Post No Checks” – The City **requires** the fraud protection feature or service that prevents checks being presented for payment to be posted to the Consolidated Cash, Flexible Spending, Credit Card, Benefit Trust, and Payroll Accounts.

☐ Yes, can provide as requested/required.

☐ No, cannot provide as requested/required.

Comment. _____

- F. Returned Check Reprocessing – The City **requires** deposited checks to be processed for collection at least twice before making non-paid checks available to the City within two business days of the final rejected presentment. The City **requires** same day notification of all returned items in excess of \$5,000.00.

☐ Yes, can provide as requested/required.

☐ No, cannot provide as requested/required.

Comment. _____

- G. The City **requires**, at a minimum, same day credit for all transactions submitted before 4:00 PM, subject to the bank’s availability schedule.

☐ Yes, can provide as requested/required.

☐ No, cannot provide as requested/required.

Comment. _____

- H. Account Analysis – The City **requires** account analysis statements delivered to the City on a monthly basis by individual account and at group level, which will reflect average ledger balance, average uncollected funds, average collected balance, reserve requirement, average available balance, rate and amount of earnings credit, detail of services provided with quantities and unit fees for each, and total service cost. Hard copy or electronic copy is acceptable.

☐

Yes, can provide as requested/required.

☐

No, cannot provide as requested/required.

Comment. _____

- I. Bank Statements - Statements **shall** be rendered within five (5) working days after the close of the calendar month. The statement shall include debits and credits made on the last day of the period and the detail items. Bank statements should be received on a monthly basis, even if there is no activity for the account. Hard copy or electronic copy is acceptable.

☐

Yes, can provide as requested/required.

☐

No, cannot provide as requested/required.

Comment. _____

- J. Collateralization – The balances maintained in all accounts must be collateralized in the same manner and under the same stipulations as outlined in the Collateral Requirements section. The maximum ledger balances could exceed \$4,000,000. Historically the average balances are less than \$3,000,000. Please clearly explain any collateral limitations or fees. The City reserves the right to maximize or minimize bank balances regardless of historical patterns. It is expected that the successful bank will monitor the collateral adequacy on a daily basis and provide additional collateral to secure balances.

☐

Yes, can provide as requested/required.

☐

No, cannot provide as requested/required.

Comment. _____

K. Payment for Services – The City intends to pay for all services provided by the earnings credit amount generated by account balances, by direct payment, or a combination of these.

☐

Yes, can provide as requested/required.

☐

No, cannot provide as requested/required.

Comment. _____

L. Account Settlement – Settlement of the excess/deficient condition as reflected by the group level account analysis is to occur on a quarterly basis.

☐

Yes, can provide as requested/required.

☐

No, cannot provide as requested/required.

Comment. _____

M. Research – The City requests that all research requests are responded to within three business days of the request.

☐

Yes, can provide as requested/required.

☐

No, cannot provide as requested/required.

Comment. _____

N. Bank Errors – Bank errors resulting in lost interest to the City will be reimbursed by the Bank to the City. The method of reimbursement will be agreed upon by the Bank and the City.

☐

Yes, can provide as requested/required.

☐

No, cannot provide as requested/required.

Comment. _____

COLLATERAL REQUIREMENTS

- A. As security for the deposits of the City, the successful bank shall pledge securities equal to 102% of their market value, of the largest total balances the City maintains in the bank, less the amount provided by the Federal Deposit Insurance Corporation. The securities so pledged shall satisfy the requirements of the Public Funds Collateral Act, Chapter 2257, Texas Local Government Code, and the Investment Policy (Attached).
- B. The securities pledged shall be held in safekeeping at an independent financial institution acceptable to both the City and the successful bank. The original copy of all security receipts shall be filed with the Finance Director.
- C. The successful bank and the custodial bank shall provide the City a report of securities pledged at the end of each month or at any time requested by the City. Hard copy or electronic copy are acceptable. The report should reflect the total pledged securities itemized by:

Name
Type / Description
CUSIP
Par Value
Market Value
Maturity Date
Rating by Moody's or Standard & Poor's

- D. Any substitutions of the securities or reductions in the total amount pledged shall be made only by and with the proper written authorization of an authorized City signatory. The City shall approve all securities pledged. In the case of reduction requests, the bank shall provide in writing that collateral shall be available when needed to meet normal balance increases throughout the year.
- E. The Board of Directors or designated committee of the successful bank will be required to provide a resolution of certification approving the commitment and delivery of the collateral to the safekeeping institution not later than five days before the commencement of the contract period.

In response to the Collateral Requirements Section:

☐

Yes, can provide as requested/required.

☐

No, cannot provide as requested/required.

Comment. _____

INVESTMENT ACTIVITIES

- A. Direct Investment Alternative – The City’s direct investment activities may take place in City accounts. The City shall have the right, at its sole discretion, to direct investment of its funds. The successful bank will be required to provide clearing and safekeeping services for City investment activity. The attached Investment Policy outlines the City’s options for investing any and all funds. The policies are subject to annual review and revision by the City Council.
- B. Certificates of Deposit – Certificates of Deposit (CD’s) purchased for the City shall be non-negotiable and shall be registered in the name of the City. The CDs must be fully insured by the F.D.I.C. or collateralized in accordance with the RFP requirements. Proof of collateral must be supplied to the City prior to CD purchase.
1. Interest Calculations – Interest on all CDs shall be computed on an actual day basis, and the interest shall be paid to the City on the maturity date. Payment shall be made by crediting the account from which the CD was purchased.
 2. Extension of CDs – The successful bank agrees to honor and continue any CD made during the term of the Bank Depository Services Agreement that will mature after the expiration date of the Agreement at the same rate established before the expiration of the contract.

In response to the Investment Activities Section:

☐

Yes, can provide as requested/required.

☐

No, cannot provide as requested/required.

Comment. _____

OVERDRAFT PROVISIONS

The City does not intend to have a net overdraft position occur during the course of the contract period. In the event a check or checks shall be presented for payment where there is insufficient funds for the purpose of paying checks, the successful bank agrees to promptly notify the Finance Director or other signatory person, by telephone or other means, of the overdraft condition, and to provide the City a period not exceeding one business day to respond and rectify the condition.

☐

Yes, can provide as requested/required.

☐

No, cannot provide as requested/required.

Comment. _____

OTHER STIPULATIONS

- A. The successful bidder shall notify the City in writing within ten (10) days of any changes in Federal or State regulations or laws that would affect the Bank Depository Services Agreement.
- B. Notification of wire transfers shall be made by telephone, fax, or email to the Finance Director within one hour of the transaction and a written confirmation mailed to the City the same day of the transaction.
- C. In the event it would be ruled illegal under the provisions of any Federal or State laws or regulations for the successful bank to comply with the requirements of the Bank Depository Services Agreement, then the City expressly reserves the right and privilege to cancel the Bank Depository Services Agreement and to re-bid.
- D. The successful bank's records relating to the City's accounts shall be open for review during normal business hours by designated staff members or appointed independent auditors.
- E. The City reserves the right to open and maintain one or more demand accounts at financial institutions not affiliated with the successful bank.
- F. The City expressly reserves the right to terminate the depository agreement with or without cause at any time by providing thirty (30) days written notice to the depository to close its accounts.
- G. All fees shall be fixed for the entire contract period, including any and all continuations in response to the Other Stipulations Section. Pricing for services requested after award of the contract will be mutually agreed upon:

☐

Yes, can provide as requested/required.

☐

No, cannot provide as requested/required.

Comment. _____

BIDDING REQUIREMENTS

- A. Two complete copies of the proposal and the bid bond check, sealed and clearly marked “BID PROPOSAL FOR CITY DEPOSITORY – DO NOT OPEN UNTIL 4:00 PM, JANUARY 27, 2022” shall be delivered to the City by 4:00 P.M., January 27, 2022 and addressed to:

Ms. Kim Quin
Finance Director
City of Saginaw
333 W. McLeroy
Saginaw, TX 76179

817-230-0332

B. NO PROPOSAL SHALL BE RECEIVED AFTER 4:00 P.M. ON THE DATE DUE.

- C. The proposing institution shall use this RFP as the Official Bid Form. Submitted prices, rates, conditions, and answers shall be included in final contract form. The signed, submitted response should include printed copies of all completed worksheets and will be deemed the respondent’s official proposal. To reduce errors and increase the ease of both response and evaluation, the City will provide an electronic copy of the RFP in MS-Word format. The RFP is included as a Word document to enable the proposer to respond to the questions and incorporate comments into the RFP. It is important that any additions to, exceptions to, and changes of the RFP be highlighted or italicized. Schedule 1 – Fee Schedule is to provide unit prices for the bank service items listed and be extended for the activity volume indicated for each item, to arrive at a total service cost. This fee schedule must be returned as part of the response to the proposal.
- D. The City reserves the right to request additional information or to meet with representatives from proposing organizations to discuss points in the proposal before and after submission, any and all of which may be used in forming a recommendation.
- E. The City reserves the right to reject any and all proposals, and to accept the proposal it considers in its best interest based upon the requirements and descriptions outlined in this RFP.
- F. Bidder must qualify under current Texas law as a state or national bank to serve as a municipal depository bank.

- G. Bidder shall supply a bid bond of \$5,000.00. The bid bond shall be in the form of a cashier's check made payable to the City, and shall be returned to each bidder upon final acceptance and execution of a contract with the successful bidder. Should the institution selected as the successful bank by the City fail to become a bank service provider, for whatever reason, the bid bond will be forfeited to the City as liquidated damages.
- H. Transfer of funds will commence at such time the successful bank has provided the City with all required forms and supplies necessary to insure uninterrupted day-to-day operations. The successful bank commits its "best efforts" to complete the execution of documentation and transfer of funds by the April 1, 2022 contract period start date. Failure to complete by the start date, at the discretion of the City, could be considered grounds for bid bond forfeiture and alternative bank selection.
- I. The successful bank shall, upon termination of contract, cooperate with the new bank for transfer of funds.
- J. There will be no formal bid opening at the expiration of the response deadline. Upon written request, non-confidential information on the accepted proposal will be available after the City Council selects the successful bank.
- K. Any questions concerning this RFP should be directed to:

Kim Quin
Finance Director
City of Saginaw
333 West McLeroy
Saginaw, TX 76179
817-230-0332
817-232-4644 fax
kquin@saginawtx.org

or

Jennifer Garrett
Finance Manager
City of Saginaw
333 West McLeroy
Saginaw, TX 76179
817-230-0333
817-232-4644 fax
jgarrett@saginawtx.org

MISCELLANEOUS

- A. The City shall require a review meeting annually to evaluate the working relationship between the City and the successful bank. The objective shall be to address any problems and to seek solutions as well as keeping abreast of changes, new services, or new requirements.
- B. The final appointment of the successful bank shall be made by contract award of the City of Saginaw City Council. The successful bank shall be required to enter into a contract that incorporates all of the requirements of their submitted RFP as the OFFICIAL BID FORM, along with the accompanying related schedules and materials as called for in this RFP. Additional contract attachments include: collateral custodial agreement, FIRREA bank certification, and PFIA investment provider certification.
- C. This RFP has been duly advertised and is being offered for consideration to financial institutions as permitted by the City policy.

PROPOSAL SUBMITTED BY

This Proposal is being submitted to the City by the following person duly authorized to act on behalf of this financial institution.

Name of Financial Institution

Address of Financial Institution

Address of Branch Office Nearest Saginaw

Telephone Number

Officer Name & Title (Printed)

Officer Signature

Date _____

ACCEPTANCE OF PROPOSAL

This proposal, having been approved by the City of Saginaw City Council, is being accepted for the City by the following person duly authorized to act on behalf of the City:

Todd Flippo
Name (print)

Signature _____

Mayor _____
Title (print)

Date _____

BANK TRANSACTIONS BY ACCOUNT							
FOR THE MONTH OF:							
NOVEMBER 2021							EXHIBIT 1
	CREDITS		DEBITS		ENDING	AVERAGE	
<u>DESCRIPTION</u>	<u>NUMBER</u>	<u>AMOUNT</u>	<u>NUMBER</u>	<u>AMOUNT</u>	<u>BALANCE</u>	<u>BALANCE</u>	<u>TYPE</u>
Consolidated Cash	106	3,119,750	47	2,832,855	2,630,940	2,537,648	
Credit Card	100	590,579	5	544,540	579,281	461,459	
Payroll	2	554,873	5	554,873	-		Zero Balance
Accounts Payable	20	1,533,754	168	1,533,754	-		Zero Balance
Flexible Spending	8	7,530	8	7,530	-		Zero Balance
Benefits Trust	2	149,136	2	149,136	-		Zero Balance

BANK ACCOUNT ANALYSIS SUMMARY FOR THE TWELVE MONTH PERIOD OF DECEMBER 2020 THROUGH NOVEMBER 2021				EXHIBIT 2
<u>Period</u>	<u>Avg Daily Balance</u>	<u>Avg Float</u>	<u>Avg Collected</u>	
Dec-20	3,233,719	144,251	3,089,468	
Jan-21	3,288,347	35,689	3,252,657	
Feb-21	3,838,196	26,051	3,812,145	
Mar-21	3,203,880	43,791	3,160,089	
Apr-21	2,518,004	46,777	2,471,227	
May-21	3,235,368	28,848	3,206,519	
Jun-21	2,778,261	31,861	2,746,400	
Jul-21	2,693,061	105,368	2,587,693	
Aug-21	2,556,748	25,407	2,531,341	
Sep-21	2,197,062	25,244	2,171,818	
Oct-21	2,782,530	125,105	2,657,425	
Nov-21	2,941,364	43,171	2,898,193	

REQUIRED SCHEDULES

NOTE: Please include UNIT PRICE on every available service, even if no ACTIVITY is listed. Also, highlight changes to item descriptions or measurement units in written responses.

Schedule 1 - Fee Schedule

City of Saginaw

Estimated primarily from November 2021

UNITS/

UNIT

ESTIMATED
MONTHLY

ACTIVITY

PRICE

CHARGE

Account Services

Account Maintenance	6		0.00
Statements Rendered	6		0.00
Credits Posted	99		0.00
ACH Incoming Credits	139		0.00
Debits Posted	207		0.00
ACH Incoming Debits	28		0.00
Deposited Items	1,215		0.00
Premium Deposited Items	1		0.00
Special Signature Requirement	5		0.00
Special Sign Requirement Items	165		0.00
Return Items	1		0.00
Reclear Items	1		0.00
Deposit Corrections	1		0.00
Incoming Wire Transfers	1		0.00
Wire Transfer Statement	1		0.00
			0.00
			0.00
			0.00
			0.00
			0.00
			0.00

Remote Payment and Presentment Services

Remote Processing and Presentment	1		0.00
RPPS Transactions	1,056		0.00
			0.00
			0.00
			0.00
			0.00

Vault Services

Currency Processing per 1000	28		0.00
			0.00
			0.00

Positive Pay Services

Positive Pay	175		0.00
Positive Pay Rejected Items	1		0.00
Positive Pay Paid Reject Items	1		0.00
Positive Pay with Payee Review	1		0.00
Payee Review Items	175		0.00

ZBA Services

Zero Balance Accounting	4		0.00
Zero Balance Accounting Transfers	32		0.00
			0.00
			0.00
			0.00
			0.00

Image Archive Services

Image Archive Disc	1		0.00
Image Archive Items	200		0.00
			0.00
			0.00
			0.00

Automated Clearing House

ACH Filtering - Fraud Services	3		0.00
ACH Filters - Fraud Services	25		0.00
ACH Origination Services	1		0.00
ACH Origination Items	1,544		0.00
ACH Block or Filter with Review	1		0.00
Return Items ACH	1		0.00
			0.00
			0.00

Online Services

Previous Day Reporting Services	1		0.00
Previous Day Reporting Accounts	6		0.00
Previous Day Reporting Detail Items	473		0.00
Return Item Images Access	1		0.00
Online Transfers	1		0.00
Online Stop Payments	1		0.00
			0.00
			0.00
			0.00
			0.00

Other Monthly Fees

Incoming Wire Transfers	1		0.00
Wire Transfer Payment	1		0.00
Wire Transfer Statement	1		0.00
			0.00
			0.00
			0.00
			0.00
			0.00
			0.00
			0.00
			0.00

Monthly Total Estimated Fees (ex. one time charges) 0.00

Other

Depository Bags			0.00
Endorsement Stamps (one time charge)			0.00
Check Stock			0.00
Deposit Slips			0.00
ACH Software Charge			0.00
Incoming Wire Transfers	1		
Wire Transfer Payment	1		
Wire Transfer Statement	1		

Other Fees for Contract term (inc. one time charges) 0.00

Collected Balances/Earnings Credit

Formula	
Current Rate	
Average Collected Balance	<u>2,584,342</u>
Less Reserve Requirement (%)	
Investable Balance	<u>2,584,342</u>
Estimated Monthly Earnings Credit	<u><u>0.00</u></u>

Estimated Collected Balance Required to Offset
Service Charges

- 1) Certificates of Deposit \$100,000 (or more): Please provide the basis or formula for determining the interest rate.

<u>Term</u>	<u>Rate</u>	<u>Minimum \$</u>	<u>Maximum \$</u>
7 to 29 days			
30 to 59 days			
60 to 89 days			
90 to 119 days			
120 to 149 days			
150 to 179 days			
180 to 269 days			
270 to 364 days			
1 to 2 years			
2 to 3 years			

- 2) Overdrafts:

Overdrafts are not anticipated to occur, however, should a net overdraft condition occur, the following stipulations shall apply:

Maximum number of banking days the overdraft shall be allowed:

Maximum amount of the overdraft:

\$ _____

Interest rate per annum computed on the overdraft:

_____ %

- 3) The City requests **one** relationship manager to coordinate the financial institution's efforts in providing the requested services. This individual will be the City contact and will be directly responsible for facilitating all City/financial institution interaction:

<u>Description</u>	<u>Name</u>	<u>Title</u>	<u>Phone</u>
Relationship Officer			

RESPONSE ATTACHMENTS (Please attach in the order requested):

1. Sample monthly account analysis statement that will be provided to the City, and indicate any capability to provide the information electronically.
2. Explanation of the institutions' policy and methodology used in setting rates paid on interest bearing accounts and account analysis earnings credit. Indicate if they are based on a market rate such as T-Bill discount or yield rate, or the federal funds rate, etc., and when the rates are changed. Also, please provide a historical schedule of rates paid.
3. Collateral agreement clearly stating that the custodian is instructed to release the collateralized securities to the City if the City has determined that the bank has failed to pay on any accounts, including but not limited to matured investments in Certificates of Deposit, or the City has determined that the City's funds are in jeopardy for any reason, including but not limited to involuntary closure or change in ownership. The collateral agreement shall have signatories and be executed by the custodian, the successful bank, and the City.
4. Latest annual financial statements, the most recent quarterly F.D.I.C. call reports, and the Uniform Bank Performance Report for the latest fiscal year end.
5. Information describing the institution's security measures to prevent fraud and unauthorized electronic and non-electronic transfers, and protect the integrity of computer banking services and internal computer systems.
6. Technology specifications for use of all proposed electronic systems and services.
7. Sample safekeeping report of the information the City shall receive monthly from the Custodian.
8. Summary of the institution's business continuation plans as they pertain to the City's ability to perform normal banking functions during natural and un-natural bank operation disruptions, including a Statement of Commitment to provide the City continuous and ongoing bank depository services to the best of the financial institution's ability.
9. List of Comparable References and Current Texas Public Funds Clients.

**CITY OF SAGINAW, TEXAS
INVESTMENT POLICY**



City of Saginaw

~~Amended September 7, 2021 – Resolution 2021-21~~

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CITY OF SAGINAW RESOLUTION NO. 2021-21

A RESOLUTION BY THE CITY COUNCIL OF THE CITY OF SAGINAW,
TEXAS, ADOPTING AND APPROVING A REVISED CITY OF SAGINAW,
TEXAS, INVESTMENT POLICY

WHEREAS, the City Staff has prepared revisions to the City of Saginaw, Texas Investment Policy as adopted on January 26, 1988, and as heretofore revised on September 6, 1988, February 6, 1990, March 5, 1996, September 18, 2001, December 7, 2010, October 3, 2017, and September 3, 2019;

WHEREAS, the Investment Committee has heretofore studied and made its changes to such proposed revised policies, and there is attached to this Resolution a complete copy of the City of Saginaw, Texas Investment Policy, as revised on the date of adoption of this Resolution; NOW, THEREFORE;

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SAGINAW, TEXAS:

1. That the City Council of the City of Saginaw, Texas, does hereby formally approve and adopt the REVISED CITY OF SAGINAW, TEXAS INVESTMENT POLICY, as a copy is attached to this Resolution and as revised and amended on the 7th day of September, 2021.
2. That henceforth the Revised Investment Policy hereby adopted shall be in full force and effect and shall supersede and amend any prior such policy and provisions thereof.

ADOPTED AND APPROVED this 7th day of September, 2021.

APPROVED:


Todd Flippo, Mayor
of the City of Saginaw, Texas

ATTEST:


Janice England, City Secretary

APPROVED AS TO FORM AND LEGALITY:


Bryn Meredith, City Attorney



INTRODUCTION

The purpose of this document is to set forth specific investment policy and strategy guidelines for the City of Saginaw in order to achieve the goals of safety, liquidity, yield, and public trust for all investment activity. The policy and strategy shall be reviewed annually by the Investment Committee and any modifications must be approved by the Investment Committee and forwarded to the City Council for final approval. This Investment Policy, as approved, is in compliance with Chapter 2256 of the Government Code, also known as "The Public Funds Investment Act".

INVESTMENT STRATEGY

The City of Saginaw 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 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 laddered or barbell maturity structure. The dollar weighted average maturity of these funds will remain within the six to nine month range.
- 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 that 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. Such securities will tend to hold their value during economic cycles. The stated final maturity dates of securities held should not exceed two years.
- D. Investment strategies for capital improvement projects or special purpose funds should allow for flexibility and unanticipated project outlays by having a portion of their investments in highly liquid securities. 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 Saginaw. These funds are accounted for in the City's Comprehensive Annual Financial Report (CAFR) and include:

- * General Fund
- * Special Revenue Funds
- * Debt Service Funds
- * Capital Projects Funds
- * Enterprise Fund
- * Trust and Agency Funds

These funds, as well as funds that may be created from time-to-time, shall be administered in accordance with the provisions of these policies. All funds will be pooled for investment purposes. The strategy developed for this pooled fund group will address the varying needs, goals, and objectives of each fund.

II. OBJECTIVES

The City of Saginaw 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 of pooled idle cash.

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.

Liquidity

The City's investment portfolio will remain sufficiently liquid to enable the City 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

Investment Committee

An Investment Committee, consisting of the Mayor, the City Manager, the Finance Director, and the Financial Analyst shall meet as needed to determine operational strategies and to monitor results. The Investment Committee shall include in its deliberation such topics as: performance reports, economic outlook, portfolio diversification, maturity structure, potential risk to the City's funds, authorized brokers and dealers, and the target rate of return on the investment portfolio. The Investment Committee shall be authorized to invite advisors to the meetings as needed including, but not limited to, the City Attorney, the City Council, or outside advisors. The Investment Committee shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

Delegation of Authority and Training

Authority to manage the City's investment program is derived from a resolution of the City Council. The Finance Director is designated as investment officer of the City and is responsible for investment decisions and activities. The Finance Director 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 containing at least ten hours of instruction relating to the officer's responsibility under the Act within twelve months after assuming duties and attend an investment training session not less than once in a two year period and receive not less than ten hours of instruction relating to the investment responsibilities. Approved independent training sources include the Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, and the University of North Texas Center for Public Management.

Internal Controls

The Finance Director 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 Finance Director shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures.

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 prevailing circumstances, which persons of prudence, discretion and intelligence would 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:

- A. The investment of all funds, or funds under the City's control, over which the officer has responsibility rather than a consideration as to the prudence of a single investment.
- B. 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

Officers and employees 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. Officers and employees shall disclose to the City Manager 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. Officers and employees 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, as determined under Chapter 573 of the Texas Government Code, 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 City.

An officer or employee involved in the investment process has a personal business relationship with a business organization if:

- A. The officer or employee owns ten percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization.
- B. Funds received by the officer or employee from the business organization exceed ten percent of his/her gross income for the previous year; or
- C. The officer or employee has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for his/her personal account.

IV. REPORTING

Quarterly Reporting

The Finance Director shall submit not less than quarterly a signed 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. The report shall be in compliance with the Public Fund Investment Act.

V. AUTHORIZED AND SUITABLE INVESTMENT SECURITIES

Active Portfolio Management

The City intends to 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.

Authorized Investments

Assets of the City of Saginaw 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.

- A. Obligations issued, guaranteed, or insured by the United States or its agencies and instrumentalities.
- B. Deposits in financial institutions with a main office or branch in Texas, guaranteed or insured by the Federal Deposit Insurance or its successor or collateralized as defined in the Safekeeping and Custody section of this Policy. In addition, Certificates of Deposit obtained through a depository institution that has its main office or a branch office in Texas and that contractually agrees to place the funds in federally insured depository institutions in accordance with the conditions prescribed in Section 256.010(b) of the Act are authorized investments.
- C. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its Agencies and Instrumentalities, pledged to the City, held in the City's name, and deposited with a third party, selected by the Finance Director, 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 a bank domiciled in Texas.
- D. Local government investment pools organized in conformity with Chapter 2256 (Public Funds Investment Act) of the Government Code that:
 - 1. Have a dollar-weighted average stated maturity of 90 days or fewer
 - 2. Seek to maintain a stable net asset value of \$1 per share
 - 3. Are rated not less than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.
 - 4. Have provided the City with an offering circular and other information required by the Public Funds Investment Act.

To become eligible, investment pools must meet all the requirements of state law as determined under Chapter 2256 of the Government Code, as amended; and be approved by a City Council action. Investments will be made in a local government pool only after a thorough investigation of the pool and approval by the Investment Committee which shall, at least annually, review, revise, and adopt a list of approved pools.

Holding Period

The City of Saginaw 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.

Risk and Diversification

The City of Saginaw 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 limited investments to those instruments allowed by the Act, which are described herein.
- B. 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 instruments 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.
- C. Risk of illiquidity due to technical complications shall be controlled by the selection of securities as described herein.

VI. SELECTION OF BANKS AND DEALERS

Depository

Periodically, 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 Finance Director shall conduct a comprehensive review of prospective depositories credit characteristics and financial history.

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 Finance Director.

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 Dealer", 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 that 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
- 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.

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

VII. SAFEKEEPING AND CUSTODY

Insurance of 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 Finance Director 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.

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

Collateral Defined

The City of Saginaw shall accept 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.
- C. Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.
- D. 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.

Subject to Audit

All collateral shall be subject to inspection and audit by the Finance Director 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 Saginaw investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed for effectiveness on an annual basis by the Investment Committee and any modifications will be recommended for approval to the City Council.

**INVESTMENT POLICY FOR THE
CITY OF SAGINAW, TEXAS**

**TEXAS PUBLIC FUNDS INVESTMENT ACT
DEALER CERTIFICATION**

This certification is executed on behalf of the City of Saginaw (the Investor) and _____ (the Dealer) pursuant to the Public Funds Investment Act, Chapter 2256, Government Code, Texas Codes Annotated (the Act) in connection with investment transactions conducted between the Investor and Dealer.

The undersigned Qualified Representative of the Dealer hereby certifies on behalf of the Dealer that:

1. The Dealer Qualified Representative is duly authorized to execute this Certification on behalf of the Dealer, and
2. The Dealer Qualified Representative has received and reviewed the Investment Policy furnished by the Investor, and
3. The Dealer has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Dealer and the Investor 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.

Dealer Qualified Representative

Signature

Name (Printed)

Title

Date

GLOSSARY

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BARBELL MATURITY STRATEGY: A maturity pattern within a portfolio in which maturities of the assets in the portfolio are concentrated in both the short and long ends of the maturity spectrum.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination (over \$100,000) CD's are typically negotiable.

COLLATERAL: Securities, evidence 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.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of Saginaw. It includes five combined 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 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. Delivery versus payment is delivery of securities

with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its 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, to reduce risk inherent in particular securities.

FACE VALUE: The principal amount due and payable to a bondholder at maturity; par value. Also, the amount on which coupon interest is computed.

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 \$300,000 per depositor (\$100,000 for non-interest bearing demand deposits, \$100,000 for interest bearing demand, savings or time deposits and a separate \$100,000 for interest and sinking funds)

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

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking service to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related asset of its members who must purchase stock in their district Bank.

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 (HUD). 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-owner 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 and as means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a 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 influencing the volume of bank credit 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 the FHA, VA or FMHM mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

INVESTMENT POOL: An entity created under the Government Code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are preservation and safety of principal, liquidity, and yield.

LADDERED MATURITY STRATEGY: A maturity pattern within a portfolio in which maturities of the assets in the portfolio are equally spaced.

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.

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

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

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 and traded.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

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.

PREMIUM: The amount by which the price paid for a security exceeds its face value.

PRIMARY DEALER: A group of government securities dealers who 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.

PRINCIPAL: The face or par value of an instrument, exclusive of the accrued interest.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem 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.

QUALIFIED REPRESENTATIVE: A person who holds a position with and is authorized to act on behalf of a business organization (as defined by the Public Funds Investment Act)

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be amortized yield to maturity on a bond 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 Fed 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.

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.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by government sponsored enterprises (FHLM, FNMA, SLMA, etc.) and corporations which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

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 BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

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.

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 for 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.