

**CITY OF PHARR  
REQUEST FOR PROPOSAL  
FOR BANKING DEPOSITORY SERVICES**

**I. INTRODUCTION**

The City of Pharr is requesting proposals for a banking services contract to be awarded Tuesday June 16<sup>th</sup>, 2015, with service to begin August 1<sup>st</sup>, 2015. The City of Pharr desires to award this contract for 5 years with two two-year extension options or thereafter (potentially a 9 year banking relationship) or until the successor depository shall have been duly selected and qualified according to state laws. The primary objectives of the depository agreement, an important component of the overall treasury and debt management program of the City, are as follow:

- To select a bank that is both capable of providing banking services and attentive to the City's money matters,
- To maximize the total dollars earned by the City on account balances as prudent and effective custodians of the City's financial resources, and
- To maintain a good working relationship with the depository bank.

**II. PROPOSAL INSTRUCTIONS AND QUALIFICATIONS**

**A. MINIMUM QUALIFICATIONS**

To assure a close working relationship, to facilitate available services, and to support local business, the entity may give priority to those banks with full service capabilities within the City limits. Any required statement regarding equal opportunity and affirmative action should be included if required\desired. The proposal submitted will become part of the final contract.

**B. PROPOSAL SUBMISSION INSTRUCTIONS**

**1. PROPOSAL FORMAT**

In order to fully and equitably evaluate each bank's ability to meet the banking services needs of the City, a standard reply format is required. Each proposal must include a response to each item in the RFP, in the order given. Only proposals submitted in the prescribed format and using the exhibit forms provided will be evaluated for contract award.

**2. SUBMISSION REQUIREMENTS**

Sealed proposals addressed to Mr. Fred Sandoval, City Manager, will be received at the Municipal Building, 4th Floor, 118 S. Cage, P.O. Box 1729, Pharr, TX 78577. Deadline for submission of proposals will be Friday June 12<sup>th</sup>, 2015 at 2:00 p.m. The City of Pharr reserves the right to refuse and reject any or all formalities or technicalities or to accept the proposal it considers to be the best and most advantageous to the city, and hold the proposals for a period of 30 days without taking action. Proposals submitted past the aforementioned date and time will not be accepted. Proposals must be clearly marked on the envelope: **PROPOSAL: BANK DEPOSITORY SERVICES, BID #1415-01-511-0016**

**3. RFP QUESTIONS**

Questions regarding this RFP or the service requested will be accepted in written form or via email at the address below on or before 5:00 p.m. Thursday, June 7<sup>th</sup>, 2015. Responses to all material questions submitted will be communicated to each prospective bidder.

JUAN G. GUERRA, CPA, CFO  
118 S. Cage 2nd Floor  
P.O. BOX 1729  
PHARR, TX 78577  
[Juan.guerra@pharr-tx.gov](mailto:Juan.guerra@pharr-tx.gov)

KARLA MOYA, ASST. FINANCE DIRECTOR  
118 S. Cage 2<sup>nd</sup> Floor  
P.O. BOX 1729  
PHARR, TX 78577  
[Karla.moya@pharr-tx.gov](mailto:Karla.moya@pharr-tx.gov)

**4. REQUEST FOR PROPOSAL AMENDMENTS**

Modifications or additions may be made as a result of questions submitted. Written notification of any such change will be made in writing to all known prospective respondents.

**5. SELECTION CRITERIA**

Evaluation of proposals will be made on the basis of the following objectives:

|                                     |            |
|-------------------------------------|------------|
| Time deposit interest rates         | <u>30%</u> |
| Cost of service                     | <u>10%</u> |
| Service availability                | <u>20%</u> |
| Safety and creditworthiness of bank | <u>40%</u> |

**6. AWARD OF BID AND SERVICE INITIATION**

The contract is scheduled to be awarded by the City of Pharr CITY COMMISSION at its meeting: **Tuesday, June 16<sup>th</sup>, City Commissioners' Room, 2<sup>nd</sup> Floor, 118 S. Cage, Pharr, TX 78577.**

### **III. REQUIRED FINANCIAL INSTITUTION INFORMATION**

All banks must provide as part of the proposal:

- Audited financial statements for the most recent fiscal year
- A copy of the current call report
- A statement regarding any recent or foreseen merger or acquisition
- A completed Broker/Dealer Certification Form as required by Texas State Statutes (including acknowledgment of receipt and review of the City of Pharr's Investment Policy)
- A statement acknowledging compliance with the Public Funds Investment Act In compliance with the Texas Government Code (Public Funds Investment Act) Sec. 2256.005 (k)-(1)
- A reference listing of current clients, specifically municipalities and/or local governments

### **IV. REQUIRED BANKING SERVICES**

This section lists all the services to be provided by the bank under this agreement. Attachment A lists each of these services. The bank should use this Attachment to provide the specific price for each service.

-See Attachment A.

#### **A. ACCOUNT ACTIVITY**

The City intends to establish roughly 40 bank accounts. Attachment B has the listing of current accounts with ending balances as of September 30, 2014 (audited). The Pooled Cash Account will constitute almost all of the City's banking business. Intra-bank transfers to reimburse money to other City's accounts and most wire transactions will occur mainly in this account. The City reserves the right to open or close any number or type of accounts throughout the period if necessary, although few changes are anticipated.

Bank statements shall be rendered within five working days after the close of the calendar month. The cutoff cycle for all City accounts must be the last day of the calendar month. The statement shall include deposits made on the last day of the period. The accompanying checks and deposits shall be arranged in numerical order for all accounts.

All checks deposited by the City which do not clear the first time, should be submitted a second time before returning them to the City.

#### **B. WIRE TRANSFER SERVICES**

The City currently generates approximately 10 incoming and 10 outgoing wires each month. A standard wire transfer agreement will be executed with the bank. This proposal should include a copy of your standard transfer procedures. If the wire transfers requests are available on line, full information should be submitted detailing the use.

#### **C. AUTOMATED DAILY BALANCE REPORTING**

The City requires an automated PC-based reporting system for access to the closing ledger and available balances. Stipulate the time at which the access is available and describe the system to

be used. Reporting should include balance and detail reporting. Samples of the reports are to be included in the proposal.

#### **D. SWEEP ACCOUNT PROVISIONS**

If the City chooses, the bank will be responsible for automatically sweeping the balances in all accounts daily to an investment option (money market fund, repo, etc). Describe the sweep options and, if a money market fund is used, provide a prospectus. The accounts will be swept to the compensating balance.

#### **E. RECONCILIATION**

The accounts in Attachment B are to be reconciled by the bank. Deadlines and requirements for tape receipt and processing time should be included in the proposal.

#### **F. INVESTMENT OF IDLE FUNDS AND SAFEKEEPING OF CITY SECURITIES**

All certificates of deposit bought by the City will be bought on a competitive basis. The City has no obligation to invest its funds with or through the bank. If the bank is proposing overnight repurchase agreements, an executed Master Repurchase Agreement is required. In order to fulfill GASB requirements for reporting, if a repurchase agreement is executed with the bank itself, the collateral must be held in the trust department of the bank in a separate account.

All securities will be handled on a delivery versus payment (DVP) basis as they are cleared into and out of the account. There will be approximately ten securities in safekeeping at any time. All clearing and safekeeping will be in the bank or its correspondent. All correspondent and safekeeping arrangements will be stipulated in the proposal.

See Attachment C which is the City's Investment Policy.

#### **G. STANDARD DISBURSING SERVICES**

Standard disbursing services for all accounts are required to include the payment of all checks upon presentation.

#### **H. STANDARD DEPOSIT SERVICES**

The bank must guarantee immediate credit on all incoming wire transfers and U.S. Treasury checks upon receipt and all other checks based on the bank's published availability schedule. The bank should specify in their proposal their deposit requirements and commercial and retail deposit locations, including night deposit services and procedures. The City currently utilizes approximately 75 lock bags to accommodate daily armored car service.

#### **I. REPORTING AND ACCOUNT ANALYSIS**

Monthly account analysis reports must be provided by the bank on a timely basis for each account and on a total account basis. A sample account analysis format must be provided as part of the proposal. Samples of monthly statements should also be provided. The monthly statements are to be received within five business days of the next month.

## **J. ACCOUNT EXECUTIVE**

An account executive must be assigned to the account to coordinate the account services and expedite the solution of any problem. A trained and competent backup for the account executive, familiar with the account, should be assigned in the proposal. Stipulate the name and a brief biography of the account executive to be assigned to the City's account.

## **K. DIRECT DEPOSIT**

Describe the requirements and deadlines for ACH transactions. The proposal should indicate when funds will be available in participating banks. The City of Pharr currently has several accounts with established incoming direct deposit transactions. Procedures should be outlined for facilitating transfer of established direct deposits to new depository accounts, if applicable.

## **L. DAYLIGHT OVERDRAFT PROVISIONS**

Every effort will be made to eliminate daylight overdraft situations on the account. However, in case this situation does arise, the proposal should include any and all bank policies regarding daylight overdrafts charges or handling procedures.

## **M. STOP PAYMENTS**

The proposal must include a statement on the proposed stop payment process on an automated or manual basis.

## **N. COLLATERALIZATION OF DEPOSITS**

The bank must agree to obtain and maintain acceptable collateral sufficient to cover all anticipated time and demand deposits, above the FDIC insured limit. Securities used to pledge against time and demand deposits must be held in an independent third-party safekeeping institution outside the bank's holding company. The bank will execute a third-party safekeeping agreement with the City and the Safekeeping of these securities. Collateral will be maintained at a minimum of 103% and marked to market at least once a month. Control will be shared jointly between the bank and the entity. Substitution will be approved by the City and not unduly withheld. The City grants the right of collateral substitution, with prior notice and consent of the City. Substitutions of collateral will be requested in writing and new collateral will be received before the existing collateral is released. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. The proposal will name the safekeeping bank for collateral.

## **O. ADDITIONAL SERVICES**

If new services become available and are provided during the period of this contract, they will be charged at the banks then published rate.

## **V. OTHER SERVICES**

The City is interested in obtaining service and cost information on additional services for possible use during the contract period. These services are not required but will be evaluated in terms of availability, feasibility, service levels, service providers, and cost. The City will make

its determination after receipt of proposals as to whether a service will be used. If the service is accepted later in the contract period the service and charges stipulated in the proposal will be applied. The City of Pharr is seeking Debit Card accounts for City Department Heads and selected individuals with online administrative access and corresponding monthly statements. The City of Pharr is also seeking online payment options for utility, property tax, permits, municipal court, building rentals, and other collections. The City may choose to utilize lockbox services for certain revenue collections. Describe the service including the lockbox location and a full description of the service.

## **VI. BANK COMPENSATION**

Any net settlement on compensating balances will be made annually. If fees are chosen as the payment methodology, fees will be paid monthly after receipt of the account analysis.

## ATTACHMENT A – LIST OF BANKING SERVICES

Any and all anticipated service charges must be shown on this form to be applicable under the agreement. Add additional lines as required.

| <b>Service Unit</b>       | <b>Unit Charge</b>    | <b>Cost of Service</b> |
|---------------------------|-----------------------|------------------------|
| Account Maintenance       | Per Month             |                        |
| ACH Deletions             | Per Transactions      |                        |
| ACH Entries               | Per Transactions      |                        |
| ACH Processing            | Per Transaction       |                        |
| Checks Printing           | Per Transaction       |                        |
| Commercial Deposits       | Per Transaction       |                        |
| Controlled Disbursements  | Per Account/Per Month |                        |
| Credits Posted            | Per Transaction       |                        |
| Cutbacks                  | Per Transaction       |                        |
| Daily Balance Reporting   | Per Month             |                        |
| Debits Posted             | Per Transaction       |                        |
| Deposits                  | Per Transaction       |                        |
| Disposable Bank Bags      | Per Item              |                        |
| Encoding Charge           | Per Transaction       |                        |
| Extra Statements          | Per Transaction       |                        |
| Group I Items             | Per Transaction       |                        |
| Group II Items            | Per Transaction       |                        |
| Group III Items           | Per Transaction       |                        |
| Group IV Items            | Per Transaction       |                        |
| Incoming                  | Per Transaction       |                        |
| Investment Safekeeping    | Per Month             |                        |
| Items Deposited           | Per Transaction       |                        |
| Lockbox                   | Per Month             |                        |
| Master Accounts           | Per Month             |                        |
| Online Payments           | Per Transaction       |                        |
| Origination of File       | Per Tape              |                        |
| Outgoing                  | Per Transaction       |                        |
| Reconciliation            | Per Month             |                        |
| Returned Checks           | Per Transactions      |                        |
| S/keeping Interest/Credit | Per Transaction       |                        |
| S/keeping Outgoing        | Per Transaction       |                        |
| S/keeping Receipt Deposit | Per Transaction       |                        |
| Securities DVP FRB        | Per Transaction       |                        |
| Securities DVP NY         | Per Transaction       |                        |
| Sort and List             | Per Transaction       |                        |
| Sort List Tape            | Per Transaction       |                        |
| Special Handling          | Per Transaction       |                        |
| Stop Payments             | Per Transaction       |                        |
| Subsidiary Accounts       | Per Month             |                        |
| Wire Transfers            | Per Transaction       |                        |
| Zero Balanced Accounts    | Per Month             |                        |
| Other: _____              | Per Month             |                        |

# ATTACHMENT B-BANK ACCOUNTS

| SEPTEMBER 30, 2014                |  |                         |                         |                   |
|-----------------------------------|--|-------------------------|-------------------------|-------------------|
|                                   | <u>Account Name</u>                    | <u>Highest Bal</u>      | <u>Ending Bal</u>       |                   |
| 1                                 | WORKMAN'S COMP CLAIM ACCOUNT           | \$ 126.61               | \$ 126.61               |                   |
| 2                                 | COURT PAYMENTS                         | 40,529.61               | 40,119.61               |                   |
| 3                                 | P&Z PAYMENTS                           | 3,291.52                | 3,291.52                |                   |
| 4                                 | COPsynch                               | 605.33                  | 605.33                  |                   |
| 5                                 | AQUATIC PARK CREDIT CARD               | 38,349.75               | 38,292.22               |                   |
| 6                                 | GENERAL CONTINGENCY                    | 8,327,767.96            | 8,327,767.96            |                   |
| 7                                 | PHARR EVENTS CENTER                    | 5,008.54                | 5,008.22                |                   |
| 8                                 | EVENTS CENTER PAYMENTS                 | 40,771.29               | 15,717.76               |                   |
| 9                                 | POLICE ASSETS FUND                     | 917,213.90              | 871,238.76              |                   |
| 10                                | COMMUNITY DEV BLOCK GRANT FUND         | 194,495.92              | 164,207.95              |                   |
| 11                                | COMMUNITY DEV HOME PROGRAM             | 30,022.69               | 30,022.69               |                   |
| 12                                | HOUSING REHAB REVOLV LOAN PROG         | 837.67                  | 837.67                  |                   |
| 13                                | SEWER REVOLVING LOAN PROGRAM           | 983.05                  | 983.05                  |                   |
| 14                                | WATER FUND                             | 810,892.79              | 410,082.88              |                   |
| 15                                | REV BOND INT & SINKING FUND            | 102,225.79              | 102,225.79              |                   |
| 16                                | PARITY RESERVE ACCOUNT                 | 4,402,156.54            | 4,402,156.54            |                   |
| 17                                | NADB 07 CONSTRUCTION                   | 219,452.11              | 219,452.11              |                   |
| 18                                | NADB WTRSWR 07 RESERVE                 | -                       | -                       |                   |
| 19                                | NADB WTRSWR 07 IS                      | -                       | -                       |                   |
| 20                                | NADB 07A CONSTRUCTION                  | 203,136.56              | 203,136.56              |                   |
| 21                                | WW & SS REV BONDS SER 2007 -A RESERVE  | -                       | -                       |                   |
| 22                                | WW & SS SYS REV BONDS SER 07-AI & S    | -                       | -                       |                   |
| 23                                | NADBANK OMR                            | 126,967.19              | 126,967.19              |                   |
| 24                                | NADBANK RRR                            | 44,138.49               | 44,138.49               |                   |
| 25                                | UTILITY CONSTRUCTION PROJECTS          | 514,429.98              | 514,429.98              |                   |
| 26                                | 07 BONDS CWSRF TWDB                    | 1,831,755.21            | 155,268.68              |                   |
| 27                                | 07B REVENUE BONDS NADBANK              | 919,232.38              | 562,018.39              |                   |
| 28                                | UTILITY UNRESERVED CONTINGENCY         | 3,253,041.89            | 3,123,381.96            |                   |
| 29                                | BANK LOAN FORGIVENESS                  | 3,693,429.95            | 3,693,429.95            |                   |
| 30                                | BANK 2013 TWDB DWSRF BONDS (Construct) | 8,507,799.81            | 8,507,799.81            |                   |
| 31                                | BRIDGE INTEREST & SINKING FUND         | 16,088.13               | 16,088.13               |                   |
| 32                                | BRIDGE CONTINGENCY FUND                | 6,260,359.60            | 5,750,279.08            |                   |
| 33                                | BRIDGE PAYMENTS                        | 213,898.25              | 129,224.79              |                   |
| 34                                | 4.6 MI LOAN RESERVE                    | 963,555.46              | 963,555.46              |                   |
| 35                                | GOLF REVENUE FUND                      | 48,334.94               | 18,725.30               |                   |
| 36                                | PAYROLL TRUST & AGENCY ACCOUNT         | 1,924,274.20            | 736,645.18              |                   |
| 37                                | EMPLOYEE BENEFITS TRUST                | 276,041.59              | 2,417.84                |                   |
| 38                                | POOLED CASH                            | 23,414,972.97           | 23,134,538.23           |                   |
| 39                                | PEDC OPERATING                         | 424,560.60              | 275,744.69              | <- Component Unit |
| 40                                | PEDC ANNEX UPGRADE                     | 244,709.39              | 244,709.39              | <- Component Unit |
| 41                                | PEDC USDA REVOLVING                    | 8,740.38                | 8,740.38                | <- Component Unit |
| 42                                | TIRZ                                   | 119,879.77              | 119,879.77              | <- Component Unit |
| 43                                | PAL OPERATING ACCOUNT                  | 68,148.67               | 68,098.30               | <- Component Unit |
| <b>Total Bank Account Balance</b> |  | <b>\$ 68,212,226.48</b> | <b>\$ 63,031,354.22</b> |                   |

# ATTACHMENT C – INVESTMENT POLICY

Adopted March 18, 2015

## **1.0 POLICY:**

It is the policy of the City of Pharr, Texas and its component units to invest public funds in a manner which will provide the safest and most liquid opportunity with the highest investment return while meeting the daily cash flow demands of the City and conforming to the statutes governing the investment of public funds. This policy serves to satisfy the statutory requirements of defining and adopting a formal investment policy. The policy and strategy shall be reviewed by the City Commission annually. Any modifications will be formally approved by the City Commission. This investment policy, as approved, is in compliance with the provisions of the Public Funds Investment Act of the Texas Government Code Chapter 2256 (Public Funds Investment Act, PFIA). This investment policy addresses the methods, procedures, and practices that must be exercised to ensure effective and judicious fiscal management of City's funds. This policy does not include the investment of Other Post Employment Benefit Trust Funds, a separate investment policy is available for that purpose.

## **2.0 SCOPE:**

This policy applies to all aspects of investing the financial assets of the City and its component units. These funds are accounted for in the City's Comprehensive Annual Financial Report and include: General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Enterprise Funds, Trust and Agency Funds, and any new fund created by legislative body, unless specifically exempted or excluded. 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.

This policy shall not govern funds which are managed under separate investment programs in accordance with Section 2256.004 of the Public Fund investment act. Such funds currently include Retirement/Pension Fund and Deferred Compensation Fund.

**2.1 Bond Proceeds:** Funds received from the sale of general obligation bonds or certificates of obligation will be segregated and will be invested under a separate strategy.

## **3.0 OBJECTIVES:**

The following are the primary investment objectives of the City of Pharr, in order of priority:

**3.1 Safety:** Safety of principal is the foremost objective of the City of Pharr's investment policy. Safety is defined as the undiminished return of the principal of the City's investments and deposits. Investment officers must have an adequate understanding of the suitability of individual investment instruments in light of the City's financial needs. This understanding is gained through experience of the investment officers and through training designed to increase the expertise of the investment officers.

**3.2 Liquidity:** Liquidity is important to insure sufficient cash to meet all operating requirements. A liquid investment is one that can be easily and quickly converted into cash without a substantial loss of value.

**3.3 Yield:** For the City of Pharr, the yield objective is secondary to those of safety and liquidity. Yield is defined as the rate of annual income return on an investment, expressed as a percentage. The six-month U.S. Treasury Bill will be used as a prudent yield target.

#### **4.0 STANDARDS OF CARE:**

**4.1 Prudence:** Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the persons' own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

Persons who act in good faith, exercising due diligence, and in compliance with this policy, shall be relieved of any personal liability arising from the investment activities of the City of Pharr. In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration: (1) the investment of all funds under the City's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and (2) whether the investment decision was consistent with this written investment policy of the City of Pharr.

**4.2 Ethics:** Investment officers shall refrain from any activity that conflicts, or appears to conflict, with the officer's proper execution of the investment program or which could impair the officer's ability to make impartial investment decisions.

**4.3 Conflicts of Interest:** Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of investment programs, or which could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose to the Texas Ethics Commission and the City Manager, and the City Manager discloses to the City Commission if:

- a) The officer has a personal business relationship with a business organization offering to engage in an investment transaction with the City; or
- b) The officer is related within the second degree by affinity of consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with the City.

**4.4 Delegation of Authority:** In accordance with the PFIA, the responsibility for conducting investment transactions resides with the City Commission. The daily operation and management of the City of Pharr's investments are delegated to the following persons:

- a) **Investment Officers:** The City Manager shall name two investment officers from among the employees with the following job titles: City Manager, Assistant City Manager, and Finance Director. The investment officers are authorized to deposit, withdraw, invest, transfer, or manage in any other manner funds of the City of Pharr.
- b) **Other Investment Authorizations:** The City Manager, Assistant City Manager, Finance Director, and Assistant Finance Director, are authorized and responsible for depositing of funds into the bank depository.

**4.5 Quality and Capability of Investment Management:** Recognizing that the investment officers of the City have many other duties and that they may lack formal education in investing, this policy allows the City to use only the more basic and easily understood types of investments available to local governments.

**4.6 Training of Investment Officers:** All investment officers of the City shall attend an investment training session not less than once in a two-year period (training cycle begins on the first day of the fiscal year) and receive not less than ten hours of instruction from an independent source endorsed by the Governmental Treasurers Organization of Texas, Texas Municipal League, or the University of North Texas Center for Public Management.

## **5.0 STRATEGIES:**

The investment strategy is the logical product of the investment objectives. As such, it emphasizes low credit risk, diversification, and the management of maturities. The strategy also takes into account the expertise and time constraints of the investment officers. The allowable investments listed in Section 7 of this policy reflect the avoidance of credit risk. Diversification refers to dividing investments among a variety of securities offering independent returns. This strategy uses investment pools to achieve diversification. The management of maturities refers to structuring the maturity dates of the direct investments so that, while funds are initially invested for a longer period of time, some investments mature each calendar month.

**A basic strategy governs the investment of all funds under this policy. A separate strategy applies to the investment of bond proceeds.**

**5.1 Depository Bank:** Funds at the depository bank are to be managed to a level that minimizes the cost of the relationship to the City. In instances where the depository contract allows for the payment of fees by maintaining balances at the depository, every effort is to be made to minimize the amount of money held at the depository in excess of that needed to compensate the bank for its services. Concerns about safety are to be addressed by the pledging requirements of the depository, in accordance with state law. This strategy specifies that sufficient funds to support daily operations are maintained in the depository bank, but that any funds in excess of that be held to a minimum.

**5.2 Investment Pools:** An investment pool is an entity created to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are safety, liquidity, and yield. Funds are usually available from investment pools on a next day basis, meaning the pools have a high degree of liquidity. Because of the size and expertise of their staffs, investment pools are able to prudently invest in a variety of the investment types allowed by state law. In this manner, investment pools achieve diversification. The strategy of the City of Pharr calls for the use of investment pools as a primary source of diversification and a supplemental source of liquidity.

Funds that may be needed on a short-term basis but that are in excess of the amount maintained at the depository bank are available for deposit in investment pools.

**5.3 Direct Investments:** The City of Pharr purchases securities of the U.S. Treasury and U.S. Agencies in the secondary market. For purposes of this policy, the term "U. S. Agencies" shall refer to obligations of agencies or instrumentalities of the United States. The majority of the direct investments have a remaining maturity of two years or less. The City employs a ladder maturity strategy for these instruments. With that method, some investments reach maturity each month, enhancing liquidity. However, the yields are those of two year investments rather than securities having a single month to maturity, enhancing yield. The investment officers must give consideration to the over-all liquidity of the portfolio before making a direct investment. Additionally, the City occasionally purchases a U. S. Treasury or Agency security with maturities as long as two years. See Section 5.5 below.

**5.4 Hold until Maturity:** The strategy of the City is to maintain enough liquidity in its portfolio that it never needs to sell a security. This will protect the principal of the investment against market risk. Should it become necessary to sell a security prior to maturity, the prior written consent of the City Manager must be obtained.

**5.5 Investment of Reserve Funds:** Up to one-third of the funds held in reserve are available for investment in Treasury or Agency securities with remaining maturities up to two years.

**5.6 Separate Strategy for Bond Proceeds:** Proceeds from the sale of general obligation bonds or certificates of obligation will be segregated from the other investments of the City. The basic intent is to match the availability of funds to the cash requirements of the capital projects. Therefore, the maturity limits of Section 9.0 do not apply. The following investments are available for this strategy: treasury securities, demand deposits, time deposits, and investment pools. Ten percent of anticipated costs of the projects must be kept in demand deposits or pooled investments to cover unanticipated cash demands. The remaining proceeds are to be invested so as to match anticipated demands for cash. Except for the requirement for demand deposits or investment pools above, there is no restriction on the percentage of the bond proceeds that may be invested in any authorized investment vehicle.

#### **6.0 Authorized Financial Dealers and Institutions:**

**6.1 Approved List of Investment Service Providers:** All banking services will be governed by the depository contract. In addition, the Finance Director shall maintain a list of security brokers, dealers, and investment pools that are authorized by the City Commission. To be eligible to be approved to do business with the City of Pharr, a seller of securities must be a primary dealer, a regional dealer that qualifies under SEC Rule 15C3-1, or regulated by Federal banking authorities. To be eligible to be approved to do business with the City of Pharr, an investment pool must meet all the requirements of State law. More details on investment pool qualifications are listed in Section 7.5. Annually, the Investment Committee must review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

**6.2 Acknowledgment of Investment Policy:** A written copy of this investment policy shall be presented to any person or firm seeking to sell to the City any investment. An authorized representative of the business organization seeking to sell an investment shall execute a written instrument substantially to the effect that the registered principal has: (1) received and thoroughly reviewed the City's investment policy; and (2) acknowledged 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. The City's investment officers are expressly prohibited from buying any security from a person or firm which has not delivered a document that complies with the requirements of this section of the investment policy to the City.

#### **7.0 Authorized Investments, Including Diversification Limits and Maximum Maturities:**

Following is a list of investments that are authorized by this policy for inclusion in the City of Pharr's portfolio of investments. Also shown are the limits on the amount of that type of security that can be held, expressed as a percentage of the entire City portfolio. Also, the maximum maturity that is allowable for each type of security is specified.

**7.1 Demand Deposits at Depository Bank:** Governed by the depository contract and provisions of State law, collateralized demand deposits at the depository bank have unsurpassed liquidity and safety but do not usually provide the highest yield. By definition their maturity is immediate. One hundred percent

(100%) of the City's portfolio may be maintained in properly collateralized demand deposits at the depository bank.

**7.2 Time Deposits at Depository Bank:** Certificates of Deposit at the depository bank are authorized if they are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor and are collateralized by obligations that are allowable under state law. The maximum authorized length of maturity for certificates of deposit is two years. The target investment level is ten percent (10%), and the portfolio cap is thirty percent (30%). The target investment level is that level of investment, expressed as a percentage of the total portfolio, which the City should strive not to exceed. The portfolio cap is that level of investment, also expressed as a percentage of total portfolio, which the City must not exceed.

**7.3 Obligations of the United States Treasury:** United States Treasury Bills, Notes and Bonds are authorized investments of the City of Pharr. For purposes of direct investment by the City, the maximum length of remaining maturity is two years. The target investment level is thirty percent (30%), and the portfolio cap is eighty percent (80%). For purposes of collateral against the City's deposits, the maximum length of remaining maturity may be two years, as long as the total market value of the securities pledged against the City's deposits always exceeds those deposits.

**7.4 Obligations of Agencies or Instrumentalities of the United States:** United States Agency securities are authorized investments of the City provided that they are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States or its respective agencies and instrumentalities. For purposes of direct investment by the City, the maximum length of remaining maturity is two years. The target investment level is thirty percent (30%) and the portfolio cap is fifty percent (50%). For purposes of collateral against the City's deposits, the maximum length of remaining maturity may be two years, as long as the total market value of the securities pledged against the City's deposits always exceeds those deposits.

**7.5 Investment Pools:** Public funds investment pools which have been created to function as a money market mutual fund are authorized investments of the City provided that they meet the following criteria: (1) they are continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service; (2) they mark their portfolio to market daily; (3) they maintain a stable net asset value of no less than .995; (4) they limit their investments to those allowable to local governments by state law; and, (5) they meet or exceed the initial and monthly disclosure requirements of applicable state law. The target investment level and portfolio cap are thirty percent (30%), and the portfolio cap is eighty percent (80%). Deposits in investment pools that contain commercial paper are not authorized.

**7.6 Repurchase Agreements; Bankers' Acceptances:** These investment options are authorized for the City of Pharr only to the extent that they are contained in the portfolios of approved public funds investment pools in which the City invests. The direct investment in repurchase agreements, and bankers' acceptances by the City of Pharr is not authorized. However, indirect investment in repurchase agreements by the City's depository under a sweep arrangement is allowable for purposes of this policy.

## **8.0 Prohibited Securities:**

**8.1 Allowed by State Law but Prohibited by This Policy:** The following instruments are eligible for investment by local governments according to state law, but have been intentionally prohibited for the City by this policy: collateralized mortgage obligations; commercial paper; and investment pools except those pools which are created to function as money market mutual funds. This prohibition is in view of the time constraints on and the expertise level of the investment officers.

**8.2 Expressly Prohibited by State Law and This Policy:** The following securities are expressly prohibited by state law and this policy: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest; (3) collateralized mortgage obligations that

have a stated final maturity date of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjust opposite to the changes in a market index (inverse floaters).

**9.0 Limits on Maturity of Entire Portfolio:**

The following limits on the maturities of investments apply to the entire City portfolio, except for the bond proceeds. The funds on deposit at the bank depository are included in the calculation of these percentages:

|                           |                               |
|---------------------------|-------------------------------|
| Available within 1 month  | At least 25% of the portfolio |
| Available within 3 months | At least 33% of the portfolio |
| Available within 6 months | At least 50% of the portfolio |
| Available within 1 year   | At least 70% of the portfolio |
| Available within 2 years  | 100% of the portfolio         |

For the City portfolio, excluding any bond proceeds, the maximum average dollar-weighted maturity shall be 200 days.

**10.0 Collateralization:**

In accordance with state law and the depository contract, all demand deposits and all time deposits will be collateralized by the pledging of investment securities or irrevocable letters of credits. The City Manager and/or Director of Finance or his designee must approve the security prior to its pledging. Pledged securities shall always be held by a third party and evidenced by a current safekeeping receipt.

**11.0 Safekeeping:** All investment transactions, other than those with investment pools, shall be conducted on a delivery-versus-payment basis. Securities shall be held by a third party custodian and evidenced by current safekeeping receipts.

**12.0 Internal Control:**

The Finance Director shall establish a system of internal controls designed to prevent the loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. The system shall contain, but is not limited to, the following items:

**12.1 Competitive Bids:** To purchase a direct investment, the Finance Director or his designee shall seek at least three bids from firms listed on the approved list of brokers and dealers. Bids shall be in writing and may be delivered to the City in person, email, or via electronic facsimile. The award shall be on the basis of safety, liquidity, and highest U.S. Government Equivalent Yield. Records of the bids and award shall be maintained by the Finance Director’s office.

**12.2 Delivery-Versus-Payment:** The safekeeping agent must receive all investments, other than investment pool funds, before funds are released for their purchase.

**12.3 Compliance Audit:** In conjunction with its annual financial audit, the City shall require a compliance audit of management controls on investments and adherence to this policy.

**12.4 Collateral Comparison:** The market value of the collateral pledged against the funds maintained at the bank depository shall be compared to the amount of those deposits. If the total funds in the depository approach the market value of the collateral, the Finance Director shall take appropriate action. Records of this comparison shall be maintained in the Finance Director's office.

**12.5 Other Components:** Other sections of this policy contain aspects of internal control procedures. These include holding securities until maturity, providing adequate training for all investment officers, requiring vendors to meet minimum qualifications before selling securities to the City, disclosing personal or business relationships between investment officers and vendors, and regular reporting of investments to the City Commission.

### **13.0 Valuation:**

The market value of each investment in the City's portfolio will be calculated quarterly, on the following basis:

#### **13.1 Bank Deposits:**

Bank deposits are denominated in cash and, therefore, their face value and market value are identical. Deposit levels will be monitored daily via telephone or electronic means and confirmed on the monthly bank statement.

#### **13.2 Investment Pools:**

Monthly statements are received from the investment pools which show the amount on deposit and the market value of the pool as a percentage of the book value. The market value of the investment pools will be the product of these two figures.

**13.3 Treasury Notes:** The market value of Treasury Notes will be calculated as the product of the face value of the Note and the bid price for that Note as quoted in the *Wall Street Journal*, or will be obtained from the City's third-party securities custodian.

**13.4 Treasury Bills:** The market value of Treasury Bills will be the face value of the Bill discounted at the bid yield as quoted in the *Wall Street Journal* for the appropriate number of days, or will be obtained from the City's third-party securities custodian.

**13.5 Agencies:** For Agency securities listed in the *Wall Street Journal*, the valuation method will be the same as those of the Treasury securities. For those not listed, the market value will be obtained from the City's third-party securities custodian.

### **14.0 Performance Standards:**

For each of the City's investment objectives, following are the performance standards:

**14.1 Safety:** All investment principal is maintained.

**14.2 Liquidity:** Sufficient cash is maintained or can be generated to pay all current obligations without selling direct securities or incurring loss of principal.

**14.3 Yield:** Yield on the portfolio of City funds, except for Bond Proceeds and excluding demand deposits at the bank depository, should be no less than the yield on the six month Treasury Bill. Because of the nature of Bond Proceeds investments, the yield on Bond Proceeds should approximate the Treasury Bill yield having similar weighted-average maturities.

**15.0 Reporting:**

Not less than quarterly, the investment officers shall prepare, sign, and present to the City Commission a report of the City's investments. The report must contain all the disclosures mandated by state law. An example of the report is included in Appendix C.

**16.0 Investment Policy Adoption and Revision:**

The City Commission shall adopt the written investment policy by resolution. Annually the City Commission shall review the investment policy and strategy. Revisions to the policy shall be made by City Commission resolution.