

**CITY OF SEGUIN**

***Request for Proposal  
Banking Services Contract***

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## I. INTRODUCTION

In accordance with the provisions of the Texas Local Government Code Chapter 105, the City of Seguin (the "City") is requesting proposals from eligible and qualified financial institutions, as defined in Section 105.001, to provide the City banking services as described in this RFP. The contract will be for the period beginning April 1, 2016 and ending March 31, 2019, with an option to renew on an annual basis not to exceed a five-year contract.

The City also manages the funds of two other entities, Seguin Economic Development Corporation ("SEDC") and Schertz-Seguin Local Government Corporation ("SSLGC"). Although the City would like to maintain accounts for all entities at one financial institution, each entity will consider award of a banking services contract through their governing body. This RFP in its entirety shall be considered the RFP for the City, SEDC and SSLGC. Any reference to entity or entities throughout this RFP shall be deemed the City of Seguin, Seguin Economic Development Corporation and Schertz-Seguin Local Government Corporation.

Through this contract, the entities intend to improve customer service, minimize banking costs, improve operational efficiency, and maximize its investment capabilities.

The banking services contract is an important component of the treasury and cash management system of the entities. From this perspective, the entities are seeking a financial institution that is:

- Capable of providing the services required by the entities at the least possible cost,
- Willing to be attentive and responsive to the entities' financial matters, and
- Financially sound and meets the entities' requirements.

Qualified financial institutions should answer all questions in the Request for Proposal (RFP) and deliver sealed proposals to the City Manager's office, 205 North River Street, Seguin, Texas 78155 by 2:30 p.m. by February 23, 2016.

### A. Account Information

The City of Seguin currently maintains five (5) accounts, with the main account being the Pooled Equity account. Other accounts maintained by the City include two interest and sinking accounts. Other accounts include an Employee Benefits Trust account which monthly premiums are paid and an account established for evidence and abandoned funds from the Police Department.

SEDC currently maintains one (1) account from which all activity is paid.

SSLGC maintains three (3) accounts. One account is the Pooled Equity account from which all activity is paid. SSLGC also maintains two interest and sinking funds.

The City's current depository is Wells Fargo Bank. Bid forms found on pages 18-23 are based upon the fees currently being charged by Wells Fargo Bank. Also included in the bid forms are the average monthly volume of items in accounts.

Other accounts will be set up as needed for each entity during the term of the contract.

All accounts established should be interest bearing accounts unless otherwise specified by the City of Seguin Finance Director or Executive Director of SEDC or SSLGC. The City, SEDC and SSLGC reserve the right to open or close any number or type of accounts, as it deems necessary throughout the term of the agreement.

## **B. Calendar of Events**

The entities will make every effort to adhere to the following schedule:

<u>Description of Events</u>	<u>Date</u>
Advertise banking services contract RFP notice in newspaper	January 29, 2016
Receive proposals from interested banking institutions (prior to 2:30 p.m. at the City Manager's office, 210 East Gonzales Street, Seguin, Texas 78155)	February 23, 2016
Review of bid proposals	February 23-26, 2016
Presentations to committee by selected financial institutions	February 29 – March 2, 2016
City Council awards banking services contract for City of Seguin	March 15, 2016
SEDC Board of Directors award banking services contract for SEDC	March 7, 2016
SSLGC Board of Directors award banking services contract for SSLGC	March 17, 2016
New banking services contract period begins	April 1, 2016

## **C. Criteria for Evaluation**

A committee will be appointed by the City Manager of the City of Seguin to review all submitted proposals. Two or three financial institutions with the most favorable

responses will be asked to make a presentation to the committee. This presentation will consist of, but is not limited to the services offered by the institution as well as the costs of those services. The committee's recommendation shall be based on the bid determined to be in the best interest of the City, SEDC or SSLGC. The committee will evaluate the depository proposals 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;
- Ability to meet the legal qualifications and the terms and conditions specified in the RFP;
- Cost of banking services and funds availability;
- Reputation of proposer and quality of services;
- Financial strength and stability of the proposer;
- Effective rates paid on the entities' bank accounts and earnings credit on average available account balances;
- Earnings credit calculation on account balances;
- Banking facilities located within municipal boundaries;
- Previous service relationship with the City;
- Financial strength and stability of the institution;
- Ability to provide the entities with effective and innovative cash management services;
- Experience and success in providing banking services to similar accounts;
- Completeness of the bid form and submission of the required information; and
- Ability to provide sufficient collateral for deposits.

To assure a close working relationship, to facilitate available services, and to support local business, the City, SEDC and SSLGC may give priority to those banks with full service capabilities located within the City limits of Seguin, Texas.

#### **D. Investment Policy**

The entities intend to invest all idle funds in approved investments according to the Public Funds Investment Act and each entity's investment policy. All investments outside of the bank and investment pools are made on delivery vs. payment. The safekeeping of the investments will be at the depository. Securities owned by the entities shall be held in the entities' name as evidenced by safekeeping receipts of the institution holding the securities. Attached in the Exhibit section is each entity's investment policy.

#### **E. Miscellaneous**

The City, SEDC, and SSLGC reserve the right to reject any and all bids submitted, to waive informalities and accept the bid that is the most advantageous to the public interest.

In cases where the bidders wish to take exception to any part of this specification, the exceptions must be clearly identified as such, with the reasons stated, and alternate

language proposed by the respondent, if any, clearly stated and inserted in the appropriate place in the proposal submission.

Only written addendums issued through the Finance Department of the City of Seguin and signed by the City of Seguin, Director of Finance are valid. Any and all other changes are unauthorized and will be considered invalid.

Failure of the banking institution awarded the contract to enter into a subsequent contract/agreement within 30 days of the award will render the response invalid.

The resulting contract/agreement may be terminated by either party on 30 days written notice.

## II. REQUIRED BANKING SERVICES

### A. General Description of Services

**The proposal must include a response to each of the questions in this section and all associated fees must be detailed in the bid form.**

Banking services to be provided are listed on the bid form. The following identifies and discusses the services to be provided and the requirements to be met.

#### 1. Account Structure –

The entities currently utilize commercial interest bearing checking accounts. The entities will potentially be utilizing Zero Balance Accounts (ZBA) or sweep accounts. If a sweep account is feasible, the account would be swept daily to an AAA-rated, SEC registered government money market mutual fund striving to maintain a \$1 NAV.

- a. Describe the bank's ability to provide a ZBA structure.
- b. Can the bank provide a sweep to a money market fund as described above? If so, is the sweep from a master account or can it be swept from individual accounts?
- c. In a sweep, will sweep activity be reported on a daily transaction basis or only on a monthly basis?
- d. Are funds swept at the end of the day or next day? If next day, how are funds collateralized overnight – especially when balances are being swept to zero?
- e. For interest bearing and money market accounts, indicate any index/basis used to set the rate on the account.
- f. Will FDIC fees be charged to the account? If so, be sure to include on the bid form.

#### 2. Automated Cash Management Information Access -

The entities require web-based, automated cash management services and prior day balance reporting for timely access to balance information and transactions on all accounts. It requires a high degree of automation within the various service areas.

Imaging of all checks and image retention is required. Imaging of deposit slips and deposit items is preferred. Preferably statements and account analyses will be available in electronic form.

Minimum online services should include balance reporting, stop pays, positive pay exceptions, account transfers, and wire transfers. Daily balance reporting should include detail on all transactions with summary reporting on closing ledger and collected balances along with one-day float, at a minimum.

- a. Fully describe the bank's online service capabilities. List system capabilities (i.e. balance reporting, wires, positive pay, stop pay, etc.).
- b. Are all reporting processes and services web-based?
- c. Detail the availability of prior day and intra-day detail and summary reporting. When is prior day information available? What is included? Is intra-day information real-time or delayed? Specify.
- d. Define the image and history retention features available.
- e. Describe the security protocol for online services. How is authentication and authorization provided? How is the administration of the security module established and maintained?
- f. What are the hours of available technical support? How is it provided?
- g. Submit samples of major screens and reports available or preferably provide a website link/demo along with sign-on information for an online review of all the services, if available. If not available, submit screen prints.
- h. Are check, deposit slips and other images available online? How long are images available online?
- i. How are images charged? Are they charged when created, viewed, or one time?

3. Disbursement services –

While the City has a mandatory direct deposit policy for its employees, there may be times payroll checks are issued. Disbursing services are required to include the payment of all City payroll checks without charge upon presentation. The City requires positive pay services for all its checks and account.

Only checks signed by appropriate authorities as designated on signature cards can be cleared for payment.

- a. When is daily check clearing information available online through intra-day reporting?
- b. Does the bank image all checks? When is the image available and how long it is retained online?
- c. What level of reporting on received items is included? (check number, dollar amounts, value dates, transaction codes, etc.)
- d. Does the bank agree to cash all non-account holder City payroll checks without fee to the check presenter or the City?

4. Standard deposit services –

Standard deposit services are required. The entities anticipate a daily deposit by staff with an average of two individual deposits per day, but may be more. Deposits are batched with tapes attached. The entities do not encode checks. The entities collect daily for utility bills, building permits, day camp, and other services. Individual deposits may vary up to \$2,500,000, but could be higher. Some of these deposits consist of one large check or multiple checks and various denominations and amounts of cash and coin. In addition, during the summer, the City operates a wave pool. Deposits are placed in the night drop by wave pool personnel.

At times, some checks written are required to be placed into two separate bank accounts. The entities prefer that check to be split on two separate deposit slips.

All deposits received by the bank's established deadline should be processed same day. The bank shall guarantee immediate credit on all incoming wire transfers, on-us items, and U.S. government securities maturities and coupons. All other checks clearing will be based on the bank's published availability schedule. Failure to credit the account will require payment reimbursement to the entities at the then-current Fed Funds rate. Returned items are to be re-deposited automatically.

- a. What is the bank's daily cut-off time to assure same day ledger?
- b. Does the bank require, or prefer, strapping and rolling? Are there cost benefits/requirements for separating cash and checks? Coin and check?
- c. Is there any limit to the number of deposits in one bag? Are these handled as separate advices?
- d. How does the bank handle discrepancies in deposit amounts? What settlement process is followed?
- e. How and when does notification of return items take place? List the notification elements (date, status of return, reference number, account numbers and routing number, amount, etc.)
- f. What type deposit bags are used or required? Are these available from the bank? At cost?
- g. Differentiate between immediate and post verification.
- h. Are any deposits or credits delayed for any reason?
- i. How much advance notice is required on coin and currency orders? Can orders be placed online? Is there any minimum purchase requirement? What is the turn-around time on orders?
- j. Include a list of all the bank's deposit locations in the City.
- k. As stated above, sometimes the individual deposits are large and contain a wide variety and amount of denominations of cash and coin. The entities rely on their Police Department to provide a police escort for our customer service representative (CSR) to the bank for deposits. Once the CSR is at the bank, what is your preferred procedure for presenting the deposit to the bank teller? Is the deposit verified at your location? If so, will the deposit be verified while the CSR is still there?

- l. What type of information is required to be presented with the deposit, besides the deposit slip (i.e. tapes)? If tapes are required to be submitted with deposits, will bank request additional copies in the future?
- m. Please describe the bank's night drop services.
- n. How does the bank handle the split deposits as mentioned above?

5. Positive Pay –

The entities use positive pay on all accounts. To safeguard against fraudulent checks, positive pay is required. The entities require positive pay services with complete indemnification for fraudulent checks. The proposal must provide a fully automated and web compatible transmission process. Transmissions are made as part of each check run. Manual check information should be able to be input and transmitted online.

- a. Describe data transmission file and timing requirements for check registers.
- b. Is payee verification available?
- c. Is positive pay input for manual checks available online? Describe.
- d. Is exception reporting and handling managed totally online? Describe.
- e. Does the bank review exceptions such as encoding errors for possible repair before creating a entity exception item?
- f. At what time are positive pay exceptions reported to the entity? How is it reported? Is the entity alerted or must staff check daily for possible exceptions?
- g. At what time must exception elections be made and entered?
- h. What responses options are available? (Pay, No pay, Hold?)
- i. Are all checks, including those received OTC, verified against the positive pay file before processing? How often is teller information updated? If not verified, what are the process, liability, and security on over-the-counter transactions?
- j. If positive pay services are not available, state the bank's policy on liability for fraudulent checks.
- k. Does the bank provide or have available fraud control paper check stock?

6. Wires and Internal Transfer Services

The entities have an average of twenty-one incoming and ten outgoing wires each month. Incoming wire transfers must receive same day credit. Wire initiation must be available online. The entities will require compensation for delays caused by bank errors at that day's Fed Funds rate. In addition, the entities has an average of ten transfers within funds a month.

- a. Can outgoing wires be initiated and monitored online?
- b. Can repetitive templates be created?
- c. Do repetitive or non-repetitive wires require the same levels of authorization?
- d. Is dual authorization required for repetitive and non-repetitive wires?
- e. Is future dating of wires available? How far in the future?
- f. State wire access and cut-off times.

- g. State the bank's policy on the use of ledger balances for outgoing wires in anticipation of daily activity or incoming wires.
- h. Is there a notification requirement of the entities' bank account executive for wires over a certain amount? If so, what is the limit?
- i. Is the ability to do internal transfers available online? Is there a fee for transfers?

7. ACH Services –

ACH services are required, but not limited to, for bi-weekly payroll direct deposit, direct debits for utility payments, transfers to and from pools, and for semi-annual debt service payments. In addition, the entities have just recently begun paying vendors through electronic funds transfers (EFT). The entities require pre-notification.

- a. Is ACH service fully available online for individual transactions as well as by transmission for batched files? What are the cut-off times?
- b. What is the policy on and handling of ACH returned items?
- c. Can ACH items be future dated? How far in advance?
- d. Describe specific filters and blocks available? Define and describe all your fraud filter options.
- e. Are ACH addenda shown in their entirety online and on reports and statements? Describe.
- f. Does the bank routinely pre-note? Is the pre-note charged as a standard ACH transaction?

8. Safekeeping Account –

All entity investments are made in accordance with the entities' Investment Policy and will be made by the entity instructions for safekeeping will be given to the bank by an authorized staff member. The bank will be required to provide book-entry safekeeping services through the bank or an approved correspondent. All securities must be cleared on a delivery versus payment (DVP) basis and ownership documented by original safe-keeping receipts to the entities. All interest payments and maturities shall be given immediate credit. All safekeeping fees are to be applied to and paid through account analysis.

9. Account Analysis –

Service charges for monthly service shall be included in a monthly analysis format. A monthly detailed billing for every single service charge for all individual bank accounts which includes type of service, volume, individual price and total price. The services should also include the execution of transactions.

- a. Provide a sample account analysis
- b. When will the analysis be available each month?
- c. Is the analysis provided online?
- d. How long are analyses maintained online?

10. Monthly Statements –

The bank will provide monthly account statements on individual accounts. All accounts are on a monthly cycle. Timeliness is critical.

- a. Provide a sample statement.
- b. State when statements are available in paper and online?
- c. Is the statement available online? Also in paper form?
- d. How long are statements maintained online?

11. Stop payments –

At times, the entity will require the bank to issue “stop payments.”

- a. Please include a statement on the proposed stop payment process on an automated or manual basis.
- b. How long are your stop payments orders effective?

12. Account Executive –

The bank will provide the entities with an account representative whose responsibility must be to serve as primary liaison between the bank and the entities. This person will be responsible for attending to inquiries, requests for services, and daily activities regarding the managing of the entities’ accounts. 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 entities’ accounts.

13. Stale Dated Checks –

The bank will not honor checks after 180-day limit.

14. NSF Charges –

No interest and/or other insufficient check charges are to be paid by the entities on overdrafts provided that the overdraft is covered by deposit on same day it appears on insufficient checklist.

15. The entities do not intend to have an overdraft position on any of its bank accounts singly or net throughout the course of the depository contract. In the event a check or checks are presented for payment on any account with insufficient funds available for payment, the entity will require the bank to pay said check and promptly notify the Director of Finance or the entity’s designated representative of the existence of the overdraft situation. The entity agrees to cover the overdraft within a maximum of one business day.

## **B. Collateral Requirements**

Consistent with the requirements of the Public Funds Collateral Act, the entities require all banks and savings and loan association deposits to be federally insured or fully collateralized with eligible securities. 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. Financial institutions serving as the entities’ depositories will be required to

sign a Depository Agreement with the entity and the entity's safekeeping agent. The safekeeping portion of the Agreement shall define the entity's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- the Agreement must be in writing.
- the Agreement has to be executed by the Depository and the Entity contemporaneously with the acquisition of the asset;
- the Agreement must be approved by the Board of Directors or the loan committee of the Depository and a copy of the meeting minutes must be delivered to the Entity;
- the Agreement must be part of the Depository's "official record" continuously since its execution.

#### 1. Allowable Collateral

The Entity shall accept only the following types of collateral:

- Obligations of the United States or its agencies and instrumentalities
- Direct obligations of the state of Texas or its agencies and instrumentalities
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized rating firm not less than A or its equivalent with a remaining maturity of twenty (20) years or less

#### 2. Collateral Substitution

Collateralized investments often require substitution of collateral. Any depository institution requesting substitution must contact the Investment Officers for approval and settlement. The Investment Officers must provide written notification of the decision to the bank or the safekeeping agent holding the security prior to any security release.

The financial institutions with which the entity invests and/or maintains other deposits shall provide monthly, and as requested by the entity, a listing of the collateral pledged to the entity marked to current market prices. The listing shall include total pledged securities itemized by:

name, type and description of the security;  
safekeeping receipt number;  
par value;  
current market value;  
maturity date; and  
Moody's, Fitch Ratings or Standard & Poor's rating (all if available).

**All collateral shall be subject to inspection and audit by the entity or the entity's independent auditors.**

**Prospective depository institutions are required to submit a copy of the safekeeping agreement and the name of the Trustee Bank to be used.**

**C. Other Stipulations**

1. The successful proposer shall notify the entity in writing within ten (10) business days of any changes in Federal or State regulations or laws that would affect the Banking Services Contract.
2. 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 entity expressly reserves the right and privilege to cancel the Bank Depository Services Agreement.
3. The successful Bank's records relating to the entity's accounts shall be open for review during normal business hours by designated staff members or appointed independent auditors.
4. The entity 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.
5. All fees shall be fixed for the entire contract period, including any and all continuations.

**III. BIDDING INSTRUCTIONS/REQUIREMENTS**

**A. Bidding Instructions**

1. Six (6) copies of sealed bids or proposals be clearly marked "Requests for Proposal: Banking Services Contract" shall be delivered to the City Manager's office, City of Seguin, 205 North River, Seguin, Texas 78155 by 2:30 p.m., February 23, 2016.

**BIDS RECEIVED AFTER 2:30 P.M. SHALL BE RETURNED UNOPENED.**

2. The proposing bank shall use this RFP form as the OFFICIAL BID FORM to submit rates and to answer questions. Submitted prices, rates, conditions, and answers shall be included in final contract form. Any alterations, changes or deletions to this RFP shall be grounds for the entity to disregard and reject the RFP and the bid. Any service which does not have a fee indicated on the Bid Form will be considered to be free of charge in the Depository Bank contract. Any additions to the bid form should be indicated under category and order. 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 entities are providing an electronic file of the Questionnaire in MS-Word format and the Bid Form in MS-Excel format. The Questionnaire is included as a Word document to enable the proposer to respond to the questions. The MS-Excel worksheet of the Bid Form incorporates unit prices for the bank service items listed and extends based on the activity volume indicated for each item, to arrive at a total service cost.

3. The entity 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.
4. The entity reserves the right to reject any and all bids submitted, to waive informalities and accept the bid that is the most advantageous to the public interest.
5. The Bidder states that it is a banking institution chartered under laws of the United States or of the State of Texas, with main or branch banking facilities located within the state of Texas.
6. All costs incurred by the proposer in responding to the RFP shall be the responsibility of the proposer.
7. Effective January 1, 2006, Chapter 176 of the Texas Local Government Code requires that any vendor or person considering doing business with a local government entity disclose in the Questionnaire Form CIQ, the vendor or person's affiliation or business relationship that might cause a conflict of interest with a local government entity. By law, this questionnaire must be filed with the records administrator of the entity not later than the 7<sup>th</sup> business day after the person becomes aware of facts that require the statement to be filed. See Section 176.006, Local Government Code. A person commits an offense if the person violates Section 176.006, Local Government Code. An offense under this section is a Class C misdemeanor.

By submitting a response to this request, vendor represents that it is in compliance with the requirements of Chapter 176 of the Texas Local Government Code.

A copy of Form CIQ is included.

8. In addition, the Texas Government Code, Sections 2252.908 requires a business entity to submit a disclosure of interested parties to the governmental entity at the time the business entity submits the signed contract to the governmental entity following the guidelines prescribed by the Texas Ethics Commission at [www.ethics.state.tx.us](http://www.ethics.state.tx.us). The law applies to contracts that require an action or vote by the governing body of the governmental entity before the contract is signed. The Form 1295 is included herein. The completed Form 1295 must be submitted

electronically by the business entity to the state. A copy of the certified Form 1295 including the certification number generated by the state must be provided to the City of Seguin at the time a bid or proposal is submitted. Information on the Form 1295 may be considered by the City during bid evaluation and award. The City will only officially acknowledge the Form 1295 submitted by the awarded vendor which will cause it to be publicly posted on the Texas Ethics Commission website.

A copy of Form is included.

9. The proposing bank shall submit a copy of the last annual financial statements along with the last two quarterly FDIC CALL reports, and provide any public information concerning changes in the ownership, management or financial position of the bank or its parent holding company.

**1. Required Forms/Submissions**

- a. Bid Form
- b. Sample bank statement
- c. Sample safekeeping agreement
- d. Sample account analysis statement
- e. Wire transfer procedures
- f. Stop payment procedures
- g. Sample monthly pledged collateral report
- h. Proposed Depository Bank Contract
- i. Availability of funds schedule with a clear explanation of deadlines
- j. Any other required agreements by the bank not mentioned above
- k. Most recent audited annual financial statement of the bank along with the last two quarterly FDIC call reports
- l. Responses to questionnaire
- m. Bank's Identity Theft Policy
- n. Procedures for direct deposit of payroll checks
- o. Procedures for bank drafting services the City provides to utility customers
- p. Procedures for night drop services
- q. Description of online banking services
- r. Questionnaire Form CIQ
- s. Form 1295
- t. Screen prints or online demo of online services
- u. Deposit locations within the City limits
- v. Community Reinvestment Act Policy

- w. Biography of Executive appointed to represent the entities
- x. Response to all questions
- y. **ANY EXCEPTIONS TO ANY PART OF THIS RFP MUST BE ATTACHED TO THE RESPONSE AND CLEARLY MARKED "EXCEPTIONS"**

## ADDITIONAL QUESTIONS

1. The Bank is affiliated with \_\_\_\_\_ (name of holding company). The legal and financial relationship between our institution and holding company is as follows:
2. Depositories will place pledged securities for safekeeping in a custodial account at the Federal Reserve Bank, a trust department of a commercial bank, or other financial institution not owned or controlled by the depository institution or its holding company. Trustee bank will be \_\_\_\_\_.
3. Do you intend to sell securities to the Corporation? Yes \_\_\_ No \_\_\_ Which bank will provide safekeeping services for book entry security purchased by the Corporation?
4. Does the bank have any significant problems noted by regulatory agencies in the past 24 months? If "yes," please explain.
5. Indicate the bank's capital to assets and return on assets ratios for the last three years.
6. Does the bank have a Community Reinvestment Act Policy? If so, please include a copy.
7. Describe any other cash management or banking services that could be offered to the entities. List all charges that apply.
8. Please list other public funds customers in Texas for which the bank currently serves as a Depository.
9. Please describe the process by which service problems can be resolved. What person or organizational unit is available for complaint or problem resolution?
11. Please list the name and a short biography of the account executive in charge of the entities' accounts. Also include the same for the person considered as the back up to this account executive.
13. What is the interest rate your financial institution pays on commercial checking accounts as of 12/31/15? What is this rate based upon?

**THE UNDERSIGNED AFFIRMS THAT IT IS DULY AUTHORIZED TO SUBMIT THIS PROPOSAL, THAT THIS PROPOSAL HAS NOT BEEN PREPARED IN COLLUSION WITH ANY OTHER PROPONENT, AND THAT THE CONTENT OF THIS PROPOSAL HAS NOT BEEN COMMUNICATED TO ANY OTHER PROPONENT PRIOR TO THE OFFICIAL OPENING OF THIS PROPOSAL. THE CONTRACT WILL BE AWARDED TO THE PROPONENT WHOSE PROPOSAL IS DETERMINED TO BE THE MOST ADVANTAGEOUS TO THE CITY, SEGUIN ECONOMIC DEVELOPMENT CORPORATION AND SCHERTZ-SEGUIN LOCAL GOVERNMENT CORPORATION CONSIDERING PRICE AND OTHER EVALUATION FACTORS. THE CITY OF SEGUIN, SEGUIN ECONOMIC DEVELOPMENT CORPORATION AND SCHERTZ-SEGUIN LOCAL GOVERNMENT CORPORATION RESERVE THE RIGHT TO REJECT ANY AND ALL PROPOSALS.**

Firm Name/Address and Phone Number

\_\_\_\_\_ Signature: \_\_\_\_\_

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

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

Phone No.: \_\_\_\_\_ Fax No.: \_\_\_\_\_

E-mail address: \_\_\_\_\_

List of exceptions to the bid (If additional room is required, please attach a sheet of paper):

**ANY EXCEPTIONS TO ANY PART OF THIS RFP MUST BE ATTACHED TO THE RESPONSE AND CLEARLY MARKED "EXCEPTIONS"**

**BANKING SERVICES CONTRACT  
CITY OF SEGUIN ANALYSIS**

Average Ledger Balance		\$ 2,228,944.00
Average Collected Balance		
Less: Reserve Requirement @	<u>                    </u> %	
Investable Balance		\$ 2,228,944.00
x Earnings Credit Allowance @	<u>                    </u> %	<u>                    </u> 0.00

**Summary of Services**

	<u>Volume</u>	<u>Unit Cost</u>	<u>Total</u>
Recoupment Monthly	2,228.94		\$ -
Account Maintenance (Commercial Checking)	1.00		\$ -
Account Maintenance (ZBA Account)	1.00		
Account Maintenance (Sweep Account)	1.00		
Debits Posted	69.00		\$ -
Bank Confirmation Audit Request (annual)	1.00		\$ -
Non-verified Envelope Processing	3.00		\$ -
Vault deposited coin - rolled	1.00		\$ -
Miscellaneous Credits Posted	2.00		\$ -
Cash Dep/\$1 verify in Cash Vault	426,907.00		\$ -
Cash Vault Adj. Advice-Us Mail	1.00		\$ -
Post Verify Depsoit	45.00		\$ -
Return Item Converted Chk Chgbk	6.00		\$ -
Deposited Checks - On us	1,074.00		\$ -
Deposited Checks	3,117.00		\$ -
Dep Correction Night Drop	1.00		\$ -
Post Verify Cash Deposited	24,301.00		\$ -
Return Item - Chargeback	17.00		\$ -
CEO Return Item Retrieval-Image	23.00		\$ -
CEO Return Item Service Monthly Base	8.00		\$ -
Admin Return Item-Repaired ACH Item	1.00		\$ -
Admin Return Item-Repaired as check	1.00		\$ -
Positive Pay Exception CEO Image	2.00		\$ -
Positive Pay Exception Checks Rtnd	1.00		\$ -
Stop Payment - Online	1.00		\$ -
Positive Pay Only Monthly Base	1.00		\$ -
Positive Pay Only - Item	471.00		\$ -
Online Image View<90 Day - Item	2.00		\$ -
Online Image View>90 Day - Item	2.00		\$ -
DDA Checks Paid	439.00		\$ -
CEO Search	18.00		\$ -
CEO Register Input - Item	72.00		\$ -



**BANKING SERVICES CONTRACT  
SSLGC ANALYSIS**

Average Ledger Balance		\$ 724,540.00
Average Collected Balance		
Less: Reserve Requirement @ _____ %		
Investable Balance		\$ 724,540.00
x Earnings Credit Allowance @ _____ %		<u>0.00</u>

Summary of Services

	<u>Volume</u>	<u>Unit Cost</u>	<u>Total</u>
Recoupment Monthly	725.00		\$ -
Daily Use of Uncoll Fund-Acct LVL	1.00		\$ -
Account Maintenance (Commercial Checking)	1.00		\$ -
Account Maintenance (ZBA Account)	1.00		
Account Maintenance (Sweep Account)	1.00		
Debits Posted	5.00		\$ -
Store/Night Drop Deposit	5.00		\$ -
Deposited Checks - On us	1.00		\$ -
Deposited Checks	8.00		\$ -
Cash Dep/\$1 ver at teller window	2,031.00		\$ -
Return Item - Chargeback	1.00		\$ -
Positive Pay Exception CEO Image	1.00		\$ -
Positive Pay Only Monthly Base	1.00		\$ -
Positive Pay Only - Item	3.00		\$ -
DDA Checks Paid	3.00		\$ -
CEO Register Input - Item	3.00		\$ -
ARP Aged Issue Records On File - Item	2.00		\$ -
Positive Pay Exceptions - Item	1.00		\$ -
Electronic Credits Posted	4.00		\$ -
ACH Received Item	3.00		\$ -
ACH Set Up Fee	1.00		\$ -
ACH Payments Base Fee	1.00		\$ -
Wire IN Domestic	1.00		\$ -
Wire-Outgoing Domestic-CEO	3.00		\$ -
Wire-Book Transfer-CEO	1.00		\$ -
CEO Event Messaging Service-Email	48.00		\$ -
_____			\$ -
_____			\$ -
_____			\$ -
_____			\$ -
_____			\$ -
_____			\$ -
_____			\$ -


	\$	-
	\$	-
	\$	-
	\$	-
	\$	-

Total Costs

\$	-
----	---

Analysis Charge Calculated This Period

--



\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\$ -  
\$ -  
\$ -  
\$ -

Total Costs

\$ -

Analysis Charge Calculated This Period

Investable Balance Needed to Avoid Charge

\_\_\_\_\_

# CONFLICT OF INTEREST QUESTIONNAIRE

# FORM CIQ

For vendor doing business with local governmental entity

**This questionnaire reflects changes made to the law by H.B. 23, 84th Leg., Regular Session.**

This questionnaire is being filed in accordance with Chapter 176, Local Government Code, by a vendor who has a business relationship as defined by Section 176.001(1-a) with a local governmental entity and the vendor meets requirements under Section 176.006(a).

By law this questionnaire must be filed with the records administrator of the local governmental entity not later than the 7th business day after the date the vendor becomes aware of facts that require the statement to be filed. See Section 176.006(a-1), Local Government Code.

A vendor commits an offense if the vendor knowingly violates Section 176.006, Local Government Code. An offense under this section is a misdemeanor.

## OFFICE USE ONLY

Date Received

**1 Name of vendor who has a business relationship with local governmental entity.**

**2**  **Check this box if you are filing an update to a previously filed questionnaire.** (The law requires that you file an updated completed questionnaire with the appropriate filing authority not later than the 7th business day after the date on which you became aware that the originally filed questionnaire was incomplete or inaccurate.)

**3 Name of local government officer about whom the information is being disclosed.**

\_\_\_\_\_  
Name of Officer

**4 Describe each employment or other business relationship with the local government officer, or a family member of the officer, as described by Section 176.003(a)(2)(A). Also describe any family relationship with the local government officer. Complete subparts A and B for each employment or business relationship described. Attach additional pages to this Form CIQ as necessary.**

A. Is the local government officer or a family member of the officer receiving or likely to receive taxable income, other than investment income, from the vendor?

Yes       No

B. Is the vendor receiving or likely to receive taxable income, other than investment income, from or at the direction of the local government officer or a family member of the officer AND the taxable income is not received from the local governmental entity?

Yes       No

**5 Describe each employment or business relationship that the vendor named in Section 1 maintains with a corporation or other business entity with respect to which the local government officer serves as an officer or director, or holds an ownership interest of one percent or more.**

**6**  Check this box if the vendor has given the local government officer or a family member of the officer one or more gifts as described in Section 176.003(a)(2)(B), excluding gifts described in Section 176.003(a-1).

**7**

\_\_\_\_\_  
Signature of vendor doing business with the governmental entity

\_\_\_\_\_  
Date

## **CONFLICT OF INTEREST QUESTIONNAIRE**

### **For vendor doing business with local governmental entity**

A complete copy of Chapter 176 of the Local Government Code may be found at <http://www.statutes.legis.state.tx.us/Docs/LG/htm/LG.176.htm>. For easy reference, below are some of the sections cited on this form.

**Local Government Code § 176.001(1-a):** "Business relationship" means a connection between two or more parties based on commercial activity of one of the parties. The term does not include a connection based on:

- (A) a transaction that is subject to rate or fee regulation by a federal, state, or local governmental entity or an agency of a federal, state, or local governmental entity;
- (B) a transaction conducted at a price and subject to terms available to the public; or
- (C) a purchase or lease of goods or services from a person that is chartered by a state or federal agency and that is subject to regular examination by, and reporting to, that agency.

**Local Government Code § 176.003(a)(2)(A) and (B):**

(a) A local government officer shall file a conflicts disclosure statement with respect to a vendor if:

\*\*\*

(2) the vendor:

(A) has an employment or other business relationship with the local government officer or a family member of the officer that results in the officer or family member receiving taxable income, other than investment income, that exceeds \$2,500 during the 12-month period preceding the date that the officer becomes aware that

- (i) a contract between the local governmental entity and vendor has been executed; or
- (ii) the local governmental entity is considering entering into a contract with the vendor;

(B) has given to the local government officer or a family member of the officer one or more gifts that have an aggregate value of more than \$100 in the 12-month period preceding the date the officer becomes aware that:

- (i) a contract between the local governmental entity and vendor has been executed; or
- (ii) the local governmental entity is considering entering into a contract with the vendor.

**Local Government Code § 176.006(a) and (a-1)**

(a) A vendor shall file a completed conflict of interest questionnaire if the vendor has a business relationship with a local governmental entity and:

- (1) has an employment or other business relationship with a local government officer of that local governmental entity, or a family member of the officer, described by Section 176.003(a)(2)(A);
- (2) has given a local government officer of that local governmental entity, or a family member of the officer, one or more gifts with the aggregate value specified by Section 176.003(a)(2)(B), excluding any gift described by Section 176.003(a-1); or
- (3) has a family relationship with a local government officer of that local governmental entity.

(a-1) The completed conflict of interest questionnaire must be filed with the appropriate records administrator not later than the seventh business day after the later of:

(1) the date that the vendor:

- (A) begins discussions or negotiations to enter into a contract with the local governmental entity; or
- (B) submits to the local governmental entity an application, response to a request for proposals or bids, correspondence, or another writing related to a potential contract with the local governmental entity; or

(2) the date the vendor becomes aware:

- (A) of an employment or other business relationship with a local government officer, or a family member of the officer, described by Subsection (a);
- (B) that the vendor has given one or more gifts described by Subsection (a); or
- (C) of a family relationship with a local government officer.

# CERTIFICATE OF INTERESTED PARTIES

# FORM 1295

### OFFICE USE ONLY

Complete Nos. 1 - 4 and 6 if there are interested parties.  
 Complete Nos. 1, 2, 3, 5, and 6 if there are no interested parties.

**1 Name of business entity filing form, and the city, state and country of the business entity's place of business.**

**2 Name of governmental entity or state agency that is a party to the contract for which the form is being filed.**

**3 Provide the identification number used by the governmental entity or state agency to track or identify the contract, and provide a description of the goods or services to be provided under the contract.**

4 Name of Interested Party	City, State, Country (place of business)	Nature of Interest (check applicable)	
		Controlling	Intermediary

**5 Check only if there is NO Interested Party.**

**6 AFFIDAVIT** I swear, or affirm, under penalty of perjury, that the above disclosure is true and correct.

\_\_\_\_\_  
 Signature of authorized agent of contracting business entity

AFFIX NOTARY STAMP / SEAL ABOVE

Sworn to and subscribed before me, by the said \_\_\_\_\_, this the \_\_\_\_\_ day of \_\_\_\_\_, 20 \_\_\_\_\_, to certify which, witness my hand and seal of office.

\_\_\_\_\_  
 Signature of officer administering oath      Printed name of officer administering oath      Title of officer administering oath

**ADD ADDITIONAL PAGES AS NECESSARY**

**CITY OF SEGUIN**  
**INVESTMENT POLICY**

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## I. POLICY STATEMENT

It is the policy of the City of Seguin to invest public funds in a manner which will provide the maximum security of principal invested with secondary emphasis on providing the highest yield while meeting the daily cash flow needs of the City and conforming to the Public Funds Investment Act, Tex. Gov't. Code Ann., Chapter 2256.

## II. SCOPE

This Investment Policy applies to all of the investment activities of the City of Seguin. This policy establishes guidelines for those who can invest authorized funds, how City funds will be invested, and when and how a periodic review of investments will be made. In addition to this Policy, bond funds (as defined by the Internal Revenue Service) shall be managed by their governing resolution and all applicable State and Federal Law.

All the listed 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. These funds are accounted for in the **City of Seguin's Comprehensive Annual Financial Report** and include:

- a. General Fund
- b. Special Revenue Funds
- c. Debt Service Funds
- d. Capital Projects Funds
- e. Enterprise Funds
- f. Internal Service Funds
- g. Trust and Agency Funds
- h. *(Any new fund created, unless specifically exempted)*

This investment policy shall apply to all transactions involving the financial assets and related activity for all foregoing funds. However, this policy does not apply to the assets administered for the benefit of the City by outside agencies under deferred compensation programs.

## III. INVESTMENT OBJECTIVES

### Objectives and Investment Strategy

The City of Seguin shall manage and invest its cash with the primary objectives of, listed in order of priority:

- **Safety** and preservation of principal
- Maintenance of sufficient **liquidity** to meet operating needs
- **Public trust** from prudent investment activities
- Optimization of **interest earnings** on the portfolio
- Diversification of investments

The safety of the principal invested always remains the primary objective.

## **PRESERVATION and SAFETY of Principal**

The primary objective of all investment activity is the preservation of capital and the safety of principal in the overall portfolio. Each investment transaction shall seek to ensure first that capital losses are avoided. The objective will be to mitigate credit and interest rate risk.

- Credit risk – The City will minimize credit risk, the risk of loss due to failure of the issuer, by:
  - Limiting investments to the safest types of investments
  - Pre-qualifying the financial institutions and brokers/dealers with which the City will do business
  - Diversifying the investment portfolio so that potential losses on individual issuers will be minimized.
  
- Interest Rate Risk – the City will minimize the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates, by:
  - Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity
  - Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

## **Maintenance of Adequate LIQUIDITY**

The investment portfolio will remain sufficiently liquid to meet the cash flow requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements; investing in securities with active secondary markets; investing in local government investment pools; and maintaining appropriate portfolio diversification.

## **PUBLIC TRUST**

All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local laws. All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. Investment officers shall avoid any transaction that might impair public confidence in the City's ability to govern effectively.

## **Return on Investment YIELD**

The City shall invest local funds in investments that yield the highest possible rate of return while providing necessary protection of the principal consistent with the operating requirements as determined by the City.

## **DIVERSIFICATION**

The City's portfolio shall be diversified by market sector and maturity in order to avoid market risk.

### **Investment Strategy**

The City's investment program uses a "pooled" investment strategy where all moneys of all funds covered by this policy are combined and invested in a portfolio, which is stratified by various levels of maturities to meet the requirements of all working capital, construction and debt service funds. In some cases, one or more separate pools of funds may be established to meet specific requirements or yield restrictions for certain funds. By combining the net cash flows of all funds, the pooled investment strategy maximizes return on investment without sacrificing safety and liquidity because economies of scale can be taken advantage of to obtain better prices and reduce transaction and administrative costs. The dollar weighted average maturity for the pooled fund group will not exceed 18 months.

## **IV. RESPONSIBILITY AND CONTROL**

### **Authority to Invest**

The City Manager and Director of Finance are designated as the "Investment Officers" of the City. As Investment Officers they are authorized to invest, transfer, execute documentation, and otherwise manage City funds according to the Policy.

The Investment Officers shall attend investment training to include a total of ten hours of training in a two-year period, that begins on the City's first day of the fiscal year (October 1) and ending two consecutive fiscal years after that date (September 30). A newly appointed Investment Officer must attend a training session of at least 10 hours of instruction within twelve months of the date the officer took office or assumed the officer's duties. Training must include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act. The investment training session shall be provided by an independent source approved by the City Council. For purposes of this policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institution of higher education or any other sponsor other than a business organization with whom the City may engage in an investment transaction. These include, but are not limited to, Texas Municipal League, Government Finance Officers' Association, Government Finance Officers' Association of Texas, Government Treasurers' Organization of Texas, Texas City Managers' Association, International City Managers' Association, or University of North Texas.

### **Standard of Care**

The standard of care used by City of Seguin shall be the "prudent person rule" and shall be applied in the context of managing the overall portfolio within the applicable legal constraints. The Public Funds Investment Act states:

"Investments shall be made with judgment and care, under prevailing circumstances, that a person of

prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." (Sec.2256.006 H.B. No 2459)

All participants in the investment process shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the City.

**Indemnification**

The Investment Officers, acting in accordance with written procedures and this policy, shall not be held personally liable for a specific security's credit risk or market price change, provided that any unexpected deviations are reported in a timely manner and that appropriate action is taken to control adverse developments.

**Standards of Operation**

The City Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program consistent with this investment

**Conflict of Interest**

An investment officer of an entity who has a personal business relationship with an entity seeking to sell an investment to the entity 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, to an individual seeking to sell an investment to the Investment Officer's entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity.

**Compliance Audit**

In conjunction with the annual financial audit, the City's independent auditors will perform a compliance audit of management controls on investments and adherence to the City's established investment policies.

**Monitoring**

Investment performance will be monitored and evaluated by the Investment Officers. Rating changes on investments acquired with public funds will be done on a weekly basis. Investment Pools will be monitored through the pool's website. All other investments will be monitored through an independent source. The investment officers will take all prudent measures that are consistent with its investment policy to liquidate an investment that does not meet the minimum rating.

## V. SUITABLE AND AUTHORIZED INVESTMENTS

### Authorized Investments

Investments described below are authorized by the Public Funds Investment Act as eligible securities for the City. City funds governed by the Policy may be invested in:

1. Obligations of the United States, its agencies and instrumentalities; (excluding mortgage backed securities).
2. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by two nationally recognized investment rating firms not less than A or its equivalent.
3. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.
4. Certificates of deposit:
  - A. the funds are invested by the City through:
    - 1) a broker that has its main office or a branch office in Texas and is selected from a list adopted by the City, or
    - 2) a depository institution that has its main office or a branch office in Texas and is selected by the City.
  - B. the broker or depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City.
  - C. the full amount of the principal and accrued interest of each of the certificates of deposit is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor, the United States or an instrumentality of the United States; and
  - D. the City appoints the depository institution of the City, an entity described by Section 2257.041(d), Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City.
  - E. If the certificate of deposit is purchased from the City's depository, depository must insure there is sufficient FDIC coverage or collateralization for the CD and the rest of the City's funds.
5. Local government investment pools, which 1) meet the requirement of Chapter 2256.016 of the Public Funds Investment Act, 2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, 3) seek to

maintain a \$1.00 net asset value, 4) are authorized by resolution or ordinance by the City Council, 5) may invest its funds in money market mutual funds to the extent permitted by and consistent with Section 2256.016, Government Code and the investment policies and objective adopted by the investment pool, 6) must furnish the investment officer a statement regarding how yield is calculated, 7) when created to function as a money market mutual fund shall report yield to its investors in accordance with regulations of the federal Securities and Exchange Commission applicable to money market funds, 8) provide information in a disclosure instrument or report described in Section 2256.016 (b), (c) (2) and (f), Government Code must be posted on its internet website, 9) must make available annual audited financial statements, and 10) if the investment pool offers fee breakpoints based on fund balances invested, the investment pool in advertising investment rates must include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested

6. Money Market Mutual funds that are 1) registered and regulated by the Securities and Exchange Commission, 2) have a dollar weighted average stated maturity of 90 days or less, 3) rated AAA by at least one nationally recognized rating service, and 4) seek to maintain a net asset value of \$1.00 per share.
7. FDIC insured, brokered certificates of deposit securities from a bank in any US state, delivered versus payment to the City's safekeeping agent, not to exceed one year maturity.

### **Prohibited Investments**

The City of Seguin has no authority to use any of the following investment instruments, which are strictly prohibited:

- (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 adjusts opposite to the changes in a market index.

## **VI. INVESTMENT PARAMETERS**

### **Diversification and Maturity Limitations**

It is the policy of the City of Seguin to diversify its investment portfolio. Invested funds shall be diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

- U. S. Treasuries and securities having principal and interest guaranteed by the U. S. Government.....no more than 95%..max. 3 yrs.
- U. S. Government agencies, instrumentalities and government sponsored enterprises .....no more than 80%..max 3 yrs .
- Fully insured or collateralized CD's.....no more than 50%..max 3 yrs.
- Local Government Investment Pool.....up to 100%, but no more than 75% in one pool
- Money Market Mutual Funds insured by the U.S. Treasury.....no more than 80%
- Brokered CD Securities .....no more than 20%, max 1 year

The Investment Officers shall be required to diversify maturities. The Investment Officers, to the extent possible, will attempt to match investments with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the Investment Officers will manage the portfolio to have an average maturity of no more than 18 months. Unless matched to a specific requirement, the Investment Officers may not invest any portion of the portfolio for a period greater than 3 years.

**Maximum Maturities:**

a. Operating Fund

The weighted average days to maturity for the operating fund portfolio shall be less than 365 days.

b. Bond Proceeds

The investment maturity of bond proceeds (excluding reserve and debt service funds) shall generally be limited to the anticipated cash flow requirement.

c. Debt Service Funds

Debt Service Funds shall be invested to ensure adequate funding for each consecutive debt service payment. The Investment Officers shall invest in such a manner as not to exceed the "unfunded" debt service date with the maturity of any investment. An unfunded debt service date is defined as a coupon or principal payment date that does not have cash or investment securities available to satisfy said payment.

d. Bond Reserve Funds

Market conditions, Bond Resolution constraints and, if applicable, Arbitrage

regulation compliance will be considered when formulating Reserve Fund strategy. Maturity limitation shall generally not exceed the call provisions of the Bond Resolution and shall not exceed the final maturity of the bond issue.

e. Other Funds

The anticipated cash requirements of other City funds will govern the appropriate maturity mix. Appropriate portfolio strategy shall be determined based on market conditions, Policy compliance, City financial condition and risk/return constraints. Maximum maturity shall not exceed three years.

## **VII. SELECTION OF BANKS AND DEALERS**

### **Qualified Institutions**

The City of Seguin shall invest City funds with any or all of the following institutions or groups consistent with federal and state law and the current Depository Bank contract:

- (1) Depository bank (CD's only);
- (2) Other state or national banks domiciled in Texas that are insured by FDIC;
- (3) Public funds investment pools;
- (4) Primary or secondary government securities brokers and dealers.
- (5) Eligible Money Market Mutual Funds

### **Depository (Chapter 105, Local Government Code)**

At least every five years, a Depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP). The selection of a depository will be determined by competitive bid and evaluation of bids will be based on the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state law.
- The ability to provide requested information or financial statements for the periods specified.
- The ability to meet all requirements in the banking RFP.
- Complete response to all required items on the bid form.
- Lowest net banking service cost, consistent with the ability to provide an appropriate level of service.
- The credit worthiness and financial stability of the bank.

### **Qualified Brokers/Dealers**

In accordance with the Public Funds Investment Act, Section 2256.005(k), a written copy of this investment policy shall be presented to any person seeking to sell to the City an authorized investment. The registered principal of the business organization seeking to sell an authorized investment shall complete the *Broker/Dealer Questionnaire* as provided in Appendix A of this investment policy and execute a written instrument substantially to the effect that the registered principal has:

- (1) received and thoroughly reviewed the investment policy of the City; 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 shall, at least annually, review, revise, and adopt a list of qualified brokers/dealers and financial institutions authorized to engage in securities transactions with the City.

### **General Investment Practices**

All investment transactions shall be documented by the Investment Officers. The Investment Officers may make investments orally, but shall follow promptly with a written confirmation to the financial institution or broker/dealer, with a copy of such confirmation retained in the City's files.

On investments, which do not fall under provisions of the City's depository agreement, the Investment Officers may take competitive bids or negotiate with approved broker/dealers. At least three (3) quotations shall be taken for each competitive bid investment made. All broker/dealers must complete a broker/dealer questionnaire (Appendix A), be approved by the Investment Officers, and have a Certification (Appendix B) on file before any transactions transpire.

### **Delivery vs. Payment**

All security transactions done with the City will be held by the City's depository or the depositories corresponding bank on DVP (delivery versus payment) basis, with the exception of investment pools and mutual funds. Funds will be released after notification that the purchased security has been received.

## **VIII. SAFEKEEPING OF SECURITIES AND COLLATERAL**

### **Safekeeping**

The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or held as collateral to secure demand or time deposits. Securities owned by the City shall be held in the City's name as evidenced by safekeeping receipts of the institution holding the securities.

Securities pledged as collateral must be retained in an independent third party bank that is chartered

in the State of Texas, and the City shall be provided the original safekeeping receipt on each pledged security. The City, financial institution, and the safekeeping bank(s) shall operate in accordance with a master safekeeping agreement signed by all three parties. Collateral may be held by the depository bank's trust department, a Federal Reserve bank or branch of a Federal Reserve bank, a Federal Home Loan Bank, or a third party bank approved by the City.

### **Collateralization**

Consistent with the requirements of the Public Funds Collateral Act, the City requires all banks and savings and loan association deposits to be federally insured or fully collateralized with eligible securities. 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. Financial institutions serving as City Depositories will be required to sign a Depository Agreement with the City and the City's safekeeping agent. The safekeeping portion of the Agreement shall define the City's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- the Agreement must be in writing.
- the Agreement has to be executed by the Depository and the City contemporaneously with the acquisition of the asset;
- the Agreement must be approved by the Board of Directors or the loan committee of the Depository and a copy of the meeting minutes must be delivered to the City;
- the Agreement must be part of the Depository's "official record" continuously since its execution.

a. Allowable Collateral

The City shall accept only the following types of collateral:

- Obligations of the United States or its agencies and instrumentalities
- Direct obligations of the state of Texas or its agencies and instrumentalities
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized rating firm not less than A or its equivalent with a remaining maturity of twenty (20) years or less

b. Collateral Substitution

Collateralized investments often require substitution of collateral. Any depository institution requesting substitution must contact the Investment Officers for approval and settlement. The Investment Officers, must provide written notification of the decision to the bank or the safekeeping agent holding the security prior to any security release.

The financial institutions with which the City invests and/or maintains other deposits shall provide monthly, and as requested by the City, a listing of the collateral pledged to the City marked to current market prices. The listing shall include total pledged securities itemized by:

name, type and description of the security;  
safekeeping receipt number;  
par value;  
current market value;  
maturity date; and  
Moody's or Standard & Poor's rating (both if available) .

### **Subject to Audit**

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

## **IX. PERFORMANCE**

### **Performance Standards**

The City's investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the City.

### **Performance Benchmark**

It is the policy of the City to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, the City shall seek to optimize interest earnings utilizing allowable investments available on the market at that time. Market value will be calculated on a quarterly basis on all securities owned and compared to current book value. The City's portfolio shall be designed with the objective of regularly meeting or exceeding the average rate of return on U.S. Treasury Bills at a maturity level comparable to the City's weighted average maturity in days.

## **X. REPORTING**

### **Methods**

Internal management reports will be provided quarterly to the City Council. The internal management report will include but is not limited to.

- (1) A detailed description of the investment position for the City.
- (2) Contain a summary statement of each investment including:
  - (a) the beginning market value, additions and changes to the market value during the reporting period, the ending market value as of the reporting date, and fully accrued interest for the reporting period.
  - (b) book value and market value of each separately invested asset.
  - (c) state the compliance of the investment portfolio to the investment strategy and investment policy.
  - (d) state the maturity date of each separately invested asset that has a maturity date.
- (3) Be prepared jointly by all Investment Officers and contain all Investment Officers signatures.
- (4) State the pooled fund group for which each individual investment was acquired.

## **XI. INVESTMENT POLICY ADOPTION**

### **Policy Revisions**

The Investment Policy of The City of Seguin may be amended by recommendation of the Investment Officers and action of the City Council. Investment Policy revisions may become necessary with changes in state law, economy, and investment opportunities.

The Investment Policy of the City of Seguin shall be reviewed annually by the City Council. Any modifications made thereto must be approved formally by the City Council.



BROKER/DEALER QUESTIONNAIRE  
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- 11) Have any of your public-sector clients ever sustained or claimed a loss on a securities transaction or loss of principal arising from a misunderstanding or misrepresentation of the risk characteristics of a recommended instrument purchased through your firm?
- 12) Has your firm ever been subject to a regulatory or state or federal agency investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sale of government securities of securities or money market instruments? If yes, please explain.
- 13) Please provide your wiring and delivery instructions.
- 14) Which instruments are offered regularly by your local desk?
- 15) Which of the above does your firm specialize in marketing?
- 16) What reports, transactions, confirmations and paper trail will we receive?
- 17) What precautions are taken by your firm to protect the interest of the public when dealing with government agencies as investors?

BROKER/DEALER QUESTIONNAIRE

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- 18) What training would you provide for the employees and investment officers?
  
- 19) Do you participate in the SIPC Insurance Program? If not, please explain.
  
- 20) What portfolio information do you prefer from your clients?
  
- 21) Please include samples of research reports or market information that your firm regularly provides to clients.

**APPENDIX B**  
**Certification by Dealer**

This certification is executed on behalf of the City of Seguin 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 City of Seguin 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 City of Seguin, and
3. The Dealer has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Dealer and the City of Seguin 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 OF INVESTMENT TERMINOLOGY

**AGENCIES:** Federal agency securities.

**ASKED:** The price at which securities are offered.

**BASIS POINT:** A basis point equals one one-hundredth of 1% (.01%) .

**BID:** The price offered for securities.

**BOOK ENTRY SECURITIES:** All U.S. Treasury and Federal Agencies are maintained on computerized records at the Federal Reserve now known as “wireable” securities.

**BROKER:** A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides.

**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.

**CERTIFICATE OF DEPOSIT:** A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for the dealer's own account.

**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.

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

**DISCOUNT:** The difference between the cost price of security and its value at maturity when quoted at lower than face value.

**DISCOUNT SECURITIES:** Securities that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury bills. Interest is received at maturity.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities and financial institutions offering.

**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 FUNDS:** Non-interest bearing deposits held by member banks at the Federal Reserve.

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

**FEDERAL DEPOSIT INSURANCE CORPORATION:** A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

**FEDERAL HOME LOAN BANKS:** The institutions that regulate and lend to savings and loan associations.

**FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC) :** A U. S. corporation and instrumentality of the U. S. Government. Through its purchases of conventional mortgages, it provides liquidity to the mortgage markets, much like FNMA. FHLMC' s securities are highly liquid and widely accepted. FHLMC assumes and guarantees that all security holders will receive timely payment of principal and interest .

**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 & Urban Development. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporations' s purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. 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 Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** The 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 guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loans associations and other institutions. Security holder are protected by full faith and credit of the U.S. Government.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

**LOCAL AGENCY INVESTMENT FUND (LAIF):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurers for investment.

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

**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, banker's acceptances, etc.) are issued and traded.

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

**PORTFOLIO:** Collection of securities held by an investor.

**PRIMARY DEALER:** A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight.

**PRIME RATE:** The rate at which banks lend to their best or "prime" customers.

**QUALIFIED REPRESENTATIVE:** a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

1. for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;
2. for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution;
3. for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool; or
4. for an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that

Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price.

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held for protection.

**SECONDARY MARKET:** A market 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.

**SETTLEMENT DATE:** The date on which a trade is cleared by delivery of securities against funds. This date may be the same as the trade date or later.

**TRADE DATE:** The date on which a transaction is initiated or entered into by the buyer or seller.

**TREASURY BILL:** A discount security issued by the U.S. Treasury to finance the national debt that matures from three months to one year.

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

**TREASURY NOTES:** Intermediate term U.S. Treasury securities having initial maturities from one to ten years.

**WHEN-ISSUED TRADES:** Typically, there is a delay between the time a new bond is announced and sold, and the time when it is actually issued. During this interval, the security trades "wi", "when, as, and if issued".

**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 security.

*Seguin Economic  
Development Corporation  
Investment Policy*

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## **PREFACE**

The Seguin Economic Development Corporation (SEDC) is a nonprofit corporation acting on behalf of the local government of the City of Seguin; SEDC is therefore subject to the Public Funds Investment Act, which, together with local laws, governs the investment practices, procedures and decisions for SEDC funds. However, laws cannot ensure that public officials manage such funds in a disciplined and prudent manner. The actions of the persons responsible for investing such funds must be guided by knowledge, skills, systems, policies, procedures and confidence that can be described only as professional discipline.

It is the policy of the SEDC that all funds of the SEDC should be invested primarily with an emphasis on safety of principal and liquidity.

Effective cash management is recognized as essential to good fiscal management. An aggressive cash management and investment policy will be pursued. To that end, investment interest will be used as a viable revenue source for all funds of SEDC. Earnings from investments will be used in a manner that will best serve the interest of SEDC.

SEDC's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local laws including the Public Funds Investment Act, Texas Government Code Ann., Chapter 2256.

## I. POLICY STATEMENT

The investment policy of Seguin Economic Development Corporation (SEDC) shall be to provide the maximum security of principal invested with secondary emphasis on having available funds invested, to the maximum extent possible, at the highest rates obtainable at the time of investment. This is in conformance with the legal and administrative guidelines outlined herein and conforming to the Public Funds Investment Act, Tex. Gov't. Code Ann., Chapter 2256.

## II. SCOPE

This Investment Policy applies to all of the investment activities of the Seguin Economic Development Corporation. This policy establishes guidelines for those who can invest authorized funds, how Corporation funds will be invested, and when and how a periodic review of investments will be made. In addition to this Policy, bond funds (as defined by the Internal Revenue Service) shall be managed by their governing resolution and all applicable State and Federal Law.

- a. Special Project or Special Purpose Funds
- b. Consolidated Cash Fund
- c. *(Any new fund created, unless specifically exempted)*

## III. OBJECTIVES AND INVESTMENT STRATEGY

The Seguin Economic Development Corporation shall manage and invest its cash with the primary objectives of, listed in order of priority:

- **Preservation** of capital, safety of principal and security of investments of SEDC funds
- Maintenance of sufficient **liquidity** to meet operating needs
- **Public trust** from prudent investment activities
- **Maximization** of return of the portfolio

Cash management is the process of managing monies in order to ensure maximum cash availability and maximum yield on short-term investments of idle cash. Subject to the SEDC's primary concern of safety of principal and liquidity, an aggressive cash management program and investment policy will be pursued by the Chief Executive Officer to take advantage of investment interest as a viable source of revenue for all SEDC funds. SEDC's portfolio shall be designed and managed in a manner responsive to the public trust. Earnings from investments will be used in a manner that will best serve the interests of SEDC.

SEDC is required by the Public Funds Investment Act to adopt a formal written Investment Policy. This policy sets forth the investment objectives of SEDC.

## **Preservation and Safety of Principal**

The primary objective of all investment activity is the preservation of capital and the safety of principal in the overall portfolio. Each investment transaction shall seek to ensure first that capital losses are avoided. The objective will be to mitigate credit and interest rate risk.

- ❑ Credit risk – The Corporation will minimize credit risk, the risk of loss due to failure of the issuer, by:
  - Limiting investments to the safest types of investments
  - Pre-qualifying the financial institutions and brokers/dealers with which the Corporation will do business
  - Diversifying the investment portfolio so that potential losses on individual issuers will be minimized.
  
- ❑ Interest Rate Risk – the Corporation will minimize the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates, by:
  - Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity.
  - Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

## **Maintenance of Adequate LIQUIDITY**

The investment portfolio will remain sufficiently liquid to meet the cash flow requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements; investing in securities with active secondary markets; investing in local government investment pools; and maintaining appropriate portfolio diversification.

## **PUBLIC TRUST**

All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local laws. All participants in the Corporation's investment process shall seek to act responsibly as custodians of the public trust. Investment officers shall avoid any transaction that might impair public confidence in the Corporation's ability to govern effectively.

## **Maximization of Return**

The Corporation shall invest local funds in investments that yield the highest possible rate of return

while providing necessary protection of the principal consistent with the operating requirements as determined by the Corporation.

### **Investment Strategies**

SEDC maintains the following portfolios, which will utilize the specific investment strategy considerations, designed to address the unique characteristics of the pooled fund groups or separately invested assets represented in the portfolios:

(1) Special Project or Special Purpose Funds

Special project or special purpose funds, if any, shall be maintained as separately invested funds and shall not be commingled in the Consolidated Cash Fund (described below). Investment strategies for special projects or special purpose fund portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The dollar weighted average maturity of the 365 days or less will be calculated using the stated final maturity date of each security.

(2) Consolidated Cash Fund

The Consolidated Cash Fund shall operate as a pooled fund group and consist of all SEDC funds not designated as another Fund. The investment strategies for the Consolidated Cash Fund 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 that will experience minimal volatility during economic cycles. This may be accomplished by purchasing securities, which will complement each other in a laddered or barbell maturity structure. The dollar weighted average maturity of 365 days or less will be calculated using the stated final maturity date of each security.

The maximum maturity date using the stated final maturity date for an individual security is three (3) years.

## **IV. RESPONSIBILITY AND CONTROL**

### **Authority to Invest**

This investment policy and the outlining of investment practices and authorities is compiled in accordance with the Public Funds Investment Act, which requires the adoption of rules governing investment of funds and the designation of an investment officer.

The Chief Executive Officer (CEO) of the SEDC will serve as the senior investment officer. The CEO may, when necessary, designate additional investment officers. Responsibility and authority

for daily investment transactions and cash management reside with the CEO. The CEO is also responsible for considering the quality and capability of staff involved in investment management and procedures. The CEO will insure that staff involved in the investment function shall attend investment training to include a total of ten hours of training in each two-year period, that begins on the Corporation's first day of the fiscal year (October 1) and ending two consecutive fiscal years after that date (September 30). A newly appointed Investment Officer must attend a training session of at least 10 hours of instruction within twelve months of the date the officer took office or assumed the officer's duties. Training must include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act. The investment training session shall be provided by an independent source approved by the SEDC Board of Directors. For purposes of this policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institution of higher education or any other sponsor other than a business organization with whom the City may engage in an investment transaction. These include, but are not limited to, Texas Municipal League, Government Finance Officers' Association, Government Finance Officers' Association of Texas, Government Treasurers' Organization of Texas, Texas City Managers' Association, International City Managers' Association, or University of North Texas.

### **Standard of Care**

The standard of care used by SEDC shall be the following "prudent person standard" and shall be applied in the context of managing the overall portfolio:

Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. In determining whether a CEO has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration: 1) the investment of all funds, or funds under the entity'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 is consistent with this investment policy.

All participants in the investment process shall seek to act responsibly as custodians of public trust.

### **Indemnification**

It is the SEDC's policy that the CEO performs his duties in accordance with the policies and procedures set forth in this manual. The Investment Officers, acting in accordance with written procedures and this policy, shall not be held personally liable for a specific security's credit risk or market price change, provided that any unexpected deviations are reported in a timely manner and that appropriate action is taken to control adverse developments.

## **Standards of Operation**

The Corporation's Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program consistent with this investment policy.

## **Conflict of Interest**

An investment officer of an entity who has a personal business relationship with an entity seeking to sell an investment to the entity 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, to an individual seeking to sell an investment to the Investment Officer's entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity.

## **Compliance Audit**

SEDC, in conjunction with its annual financial audit, will require the audit firm to conduct a compliance audit of the management controls on investments and adherence to investment policies. The first audit required will be conducted in conjunction with the Fiscal Year 1995-1996 annual audit.

## **V. ACCEPTABLE INVESTMENT INSTRUMENTS**

### **Authorized Investments**

Investments described below are authorized by the Public Funds Investment Act as eligible securities for the Corporation. Corporation funds governed by the Policy may be invested in:

1. Obligations of the United States or its agencies and instrumentalities (maximum 75% of SEDC funds, 3 year maximum);
2. Direct obligations of the State of Texas or its agencies and instrumentalities (maximum 75% of SEDC funds, 3 year maximum);
3. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States. (maximum 75% of SEDC funds, 3 year maximum).
4. Obligations of states, agencies, contracts, cities, and other political subdivisions of

any state rated as to investment quality by a nationally recognized investment rating firm not less than AAA (maximum 50% of SEDC funds, 3 year maximum);

5. Certificates of deposit:
  - A. the funds are invested by the Corporation through:
    - 1) a broker that has its main office or a branch office in Texas and is selected from a list adopted by the Corporation, or
    - 2) a depository institution that has its main office or a branch office in Texas and is selected by the Corporation.
  - B. the broker or depository institution selected by the Corporation arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Corporation.
  - C. the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and
  - D. the Corporation appoints the depository institution of the Corporation, an entity described by Section 2257.041(d), Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the Corporation with respect to the certificates of deposit issued for the account of the Corporation. (maximum 50% of SEDC funds, 3 year maximum);
  - E. If the Certificate of Deposit is purchased from the Corporation's depository, depository must insure there is sufficient FDIC coverage or collateralization for the CD and the rest of the Corporation's funds.
6. SEC-registered, no-load money market mutual funds with a dollar-weighted average portfolio maturity of ninety (90) days or less and whose investment objectives include seeking to maintain a stable net asset value of One Dollar (\$1.00) per share. (maximum 50% of SEDC funds);
7. Investment Pools: The Public Funds Investment Act authorizes municipalities and other political subdivisions of the State of Texas to invest their public funds jointly through investment pools that comply with the requirements of the Public Funds Investment Act. A decision to participate in an investment pool requires a Participation or Interlocal Agreement to be executed with the State or Interlocal Authority for the investment pool. Participation in these Investment Pools is approved subject to the following conditions (up to 100% , but no more than 75% in one pool):
  - a. execution of a Participation or Interlocal Agreement;

- b. the investment pool maintains a stable \$1.00 asset value as defined in the Public Funds Investment Act;
  - c. the investment pool maintains a AAA rating by one of the rating agencies;
  - d. the investment pool's maximum average dollar weighted maturity does not exceed ninety (90) days;
  - e. may invest its funds in money market mutual funds to the extent permitted by and consistent with Section 2256.016, Government Code and the investment policies and objective adopted by the investment pool;
  - f. must furnish the investment officer a statement regarding how yield is calculated;
  - g. when created to function as a money market mutual fund shall report yield to its investors in accordance with regulations of the federal Securities and Exchange Commission applicable to money market funds;
  - h. provide information in a disclosure instrument or report described in Section 2256 (b), (c) (2) and (f), Government Code must be posted on its internet website,
  - i. must make available annual audited financial statements;
  - j. if the investment pool offers fee breakpoints based on fund balances invested, the investment pool in advertising investment rates must include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested;
  - k. the investment pool's continued compliance with the remaining provisions of the Public Funds Investment Act;
  - l. idle funds may be kept in a non-interest bearing account not to exceed 30 days (10% maximum of SEDC funds).
8. Direct repurchase agreements with primary government securities dealers, as defined by the Federal Reserve or a financial institution in the State of Texas, having a defined termination date, and secured by U.S. Government or federal agency securities, provided that the ownership of collateral for the repurchase agreement is transferred to SEDC, and deposited with SEDC's safekeeping agent for the duration

of the contract and a signed master repurchase agreement has been executed with the counterpart.

Repurchase Agreements will be done only with primary dealer.

The master repurchase agreement of the Public Securities Association (PSA) shall be executed between SEDC and any primary dealer with which SEDC transacts repurchase agreements. (maximum 50% of SEDC funds, 3 year maximum)

9. Funds kept in an interest bearing checking account at the designated depository shall not exceed 2% maximum of SEDC funds unless kept in the account for cash flow purposes. (maximum 50% of SEDC funds, 3 year maximum)
10. Money Market Mutual funds that are 1) registered and regulated by the Securities and Exchange Commission, 2) have a dollar weighted average stated maturity of 90 days or less, 3) rated AAA by at least one nationally recognized rating service, and 4) seek to maintain a net asset value of \$1.00 per share. (maximum 50% of SEDC funds, 3 year maximum)
11. FDIC insured, brokered certificate of deposit securities from a bank in any US state, delivered versus payment to the City's safekeeping agent, not to exceed one year maturity. (no more than 20%, maximum 1 year)

### **Diversification**

The Investment Officers shall be required to diversify maturities. The Investment Officers, to the extent possible, will attempt to match investments with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the Investment Officers will manage the portfolio to have an average maturity of no more than 18 months. Unless matched to a specific requirement, the Investment Officers may not invest any portion of the portfolio for a period greater than 3 years.

### **VI. UNACCEPTABLE INVESTMENT INSTRUMENTS**

The SEDC has no authority to use any of the following investment instruments, which are strictly prohibited:

- (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 adjusts opposite to the changes in a market index.

## **VII. SELECTION OF BANKS AND DEALERS**

### **Qualified Institutions**

The Seguin Economic Development Corporation shall invest Corporation funds with any or all of the following institutions or groups consistent with federal and state law and the current Depository Bank contract:

- (1) Depository bank (CD's only);
- (2) Other state or national banks that have their main office or a branch office in Texas that are insured by FDIC;
- (3) Public funds investment pools; or
- (4) Primary or secondary government securities brokers and dealers.

### **Depository (Chapter 105, Local Government Code)**

At least every five years, SEDC will designate a local bank or a branch bank of a state or national bank with a bank building and office in Seguin as its primary depository. The depository designation does not limit investment activity to one financial institution. A Depository shall be selected through the Corporation's banking services procurement process, which shall include a formal request for proposal (RFP). The selection of a depository will be determined by competitive bid and evaluation of bids will be based on the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state law.
- The ability to provide requested information or financial statements for the periods specified.
- The ability to meet all requirements in the banking RFP.
- Complete response to all required items on the bid form.
- Lowest net banking service cost, consistent with the ability to provide an appropriate level of service.
- The credit worthiness and financial stability of the bank.

## **Securities Dealers, Investment Consultants and Banks**

SEDC shall seek to conduct its investment transactions with several competing, reputable investment securities dealers and brokers to protect principal while achieving full advantage of the market.

It is the policy of SEDC to purchase securities only from those institutions on SEDC's approved list of broker/dealers, investment consultants, and banks. All securities dealers must be registered with and certified by the Texas State Securities Commission, National Association of Security Dealers (NASD) and Securities and Exchange Commission (SEC) and must complete and execute the Broker/Dealer Questionnaire and Certification Form attached hereto as Appendix A and Appendix B.

The CEO shall evaluate the soundness of broker/dealers and consultants to the extent he considers necessary or, if requested, to the extent required by the Board of Directors of SEDC. Investigation may include review of rating agency reports, review of call reports, and analysis of management, profitability, capitalization, and asset quality. Broker/dealers, and consultants with whom SEDC wished to conduct business shall provide the financial data requested by SEDC.

The CEO shall review the information and decide on the soundness of a broker/dealer, or consultant before adding the institution to the list of those with whom SEDC does business.

An institution must be approved by the Board of Directors of the SEDC and added to the approved list before any business may be transacted with SEDC. The Board of Directors shall also be able to limit the number of authorized securities dealers/banks/consultants doing business with SEDC as required.

A list of the brokers/dealers authorized to do business with the SEDC shall be presented to the Board of Directors annually.

## **General Investment Practices**

All investment transactions shall be documented by the Investment Officers. The Investment Officers may make investments orally, but shall follow promptly with a written confirmation to the financial institution or broker/dealer, with a copy of such confirmation retained in the Corporation's files.

On investments, which do not fall under provisions of the Corporation's depository agreement, the Investment Officers may take competitive bids or negotiate with approved broker/dealers. At least three (3) quotations shall be taken for each competitive bid investment made. All broker/dealers must complete a broker/dealer questionnaire (Appendix A), be approved by the Investment Officers, and have a Certification (Appendix B) on file before any transactions transpire.

In the event identical rates are received, the bank located in the City of Seguin should have preference.

### **Delivery vs. Payment**

Regardless of reporting status, all securities purchased shall require same day delivery (on settlement date) to the Corporation's safekeeping agent on a delivery versus payment (DVP) basis. By doing so, SEDC's funds are not released until SEDC has received, through the Federal Reserve wire, the securities purchased.

## **VIII. SAFEKEEPING OF SECURITIES AND COLLATERAL**

### **Safekeeping**

The Corporation shall contract with a bank or banks for the safekeeping of securities either owned by the Corporation as part of its investment portfolio or held as collateral to secure demand or time deposits. Securities owned by the Corporation shall be held in the Corporation's name as evidenced by safekeeping receipts of the institution holding the securities.

The laws of the State of Texas and prudent funds management require that all purchased securities shall be held in safekeeping by either the SEDC's safekeeping account in a third party financial institution, or the SEDC's safekeeping account in its designated depository bank, or in a Federal Reserve Bank, or in a security dealer's safekeeping. The safekeeping requirement does not apply to certificates of deposit that are FDIC insured.

Transfers of securities in safekeeping shall be processed with written confirmations. The confirmations will be used for documentation and retention purposes. The CEO must approve release of collateral prior to its removal from the safekeeping account.

### **Collateralization**

Consistent with the requirements of the Public Funds Collateral Act, SEDC requires all bank deposits to be federally insured or collateralized with securities approved for investment under the Public Funds Investment Act. 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. Financial institutions serving as SEDC depositories will be required to sign a depository agreement with SEDC and SEDC's safekeeping agent, if different from the depository bank. The safekeeping portion of the agreement shall define SEDC's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations,

including, without limitation, transferring such securities to a person designated by SEDC in accordance with Tex. Bus. & Com. Code Ann. § 9.301 (Tex. UCC) (Vernon Supp. 1991), and shall comply with the following requirements:

- \* the agreement must be in writing;
- \* the agreement has to be executed by the depository and SEDC contemporaneously with the acquisition of the asset;
- \* the agreement must be approved by the board of directors or the loan committee of the depository and a copy of the meeting minutes must be delivered to SEDC, specifically to the CEO; and
- \* the agreement must be part of the depository's "official record" continuously since its execution.

Bank demand deposits and certificates of deposit plus accrued interest up to \$100,000 per bank do not need to be collateralized pursuant to this policy as long as FDIC insurance is provided.

Collateral is valued at par or fair market value (plus interest accrued through the date of the valuation), whichever is less. Bank demand deposits, certificates of deposit (including accrued interest) and repurchase agreements (par value plus accrued interest) collateral must be maintained.

Any collateral other than U.S. Treasury Securities which has a maturity of over three (3) years must be approved by the CEO in writing before the transaction is initiated.

Collateralized investments often require substitution of collateral. Any broker or financial institution requesting substitution of collateral must contact the CEO for approval and settlement. The substituted collateral's value will be calculated and the substitution approved if its value is equal to or greater than the original collateralization level.

The CEO must give prompt notification of the decision to the bank or third party holding the collateral. Substitution is allowed for all transactions, but should be limited, if possible, to minimize potential administrative problems and transfer expense. The CEO may limit substitution and assess appropriate fees if substitution becomes excessive or abusive.

The financial institutions, with whom SEDC invests and/or maintains other deposits shall provide, as requested by SEDC, a listing of SEDC's certificates of deposit and other deposits at the institution and a listing of collateral pledged to SEDC marked to current market prices. The listing shall include the following information:

Name of Security

Par Value  
Market Value at Month End  
Maturity Date  
Moody's and/or Standard & Poor's Rating  
Maximum Amount of SEDC Fund on Deposit During Month

**Subject to Audit**

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

**IX. PERFORMANCE**

**Performance Standards**

The Corporation's investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the Corporation.

**Performance Benchmark**

It is the policy of the Corporation to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, the Corporation shall seek to optimize interest earnings utilizing allowable investments available on the market at that time. Market value will be calculated on a quarterly basis on all securities owned and compared to current book value. The Corporation's portfolio shall be designed with the objective of regularly meeting or exceeding the average rate of return on U.S. Treasury Bills at a maturity level comparable to the Corporation's weighted average maturity in days.

**X. INVESTMENT REPORTING**

Investment performance will be monitored and evaluated by the Investment Officers. Rating changes on investments acquired with public funds will be done on a weekly basis. Investment Pools will be monitored through the pool's website. All other investments will be monitored through an independent source. At least quarterly, the CEO shall prepare and submit to the Board of Directors a written report of all investment transactions. The report will include the following information: 1) a detailed description of the investment position of SEDC at the end of the month; 2) a summary statement of each pooled fund group that states a) beginning market value for the month, b) additions and changes to the market value during the period, and c) ending market value for the period; 3) state the book value and market value of each separately invested asset at the beginning and end of the month by the type of asset and fund type invested; 4) state the maturity date of each separately

invested asset that has a maturity date; 5) state the fund or pooled group fund for which each individual asset was acquired; 6) demonstrate compliance with the investment strategy established in this policy and in the Public Funds Investment Act. The report should also include computations of the yield on each fund or pooled group fund. This report must be prepared jointly and signed by all investment officers of SEDC.

## **XI. ANNUAL REVIEW**

This policy, which includes strategies for each fund, shall be adopted by the Board of Directors and City Council and shall be reviewed annually by the Board of Directors and City Council. The Board of Directors shall adopt a resolution stating that they have reviewed the investment policy and strategies. Any modifications made thereto must be approved formally by the Board of Directors and City Council by resolution.



9. Identify all personnel who will be trading with or quoting securities to SEDC, its employees or agents.
  
10. Which personnel have read SEDC's investment policies?
  
11. Please indicate the current licenses held by your representative and attach a copy of their registration.

Agent

Licensed or Registered By

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

12. Please identify your public-sector clients in the geographical area of the City of Seguin who are most comparable to its government.
  
13. Have any of your public-sector clients ever sustained a loss on a securities transaction arising from a misunderstanding or misrepresentation of the risk characteristics of the instruments? If so, please explain the surrounding transaction and circumstances in detail.
  
14. Have any of your public-sector clients ever reported to your firm, its officers, employees, or agents, orally or in writing, that they sustained a loss (in a single year) exceeding ten percent (10%) of original purchase price on any individual security purchased through your firm?
  
15. Has your firm ever been subject to a regulatory or state or federal agency investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sales of government securities or money-market instruments? Have any of your employees ever been so investigated? If so, please explain the surrounding transaction and circumstance in detail.

16. Has a public-sector client ever claimed in writing that your firm was responsible for investment losses? If so, please explain the surrounding transaction and circumstance in detail.
17. Please include samples of research reports that your firm regularly provides to public-sector clients.
18. Please explain your normal custody and delivery process. Who audits these fiduciary systems?
19. Please provide certified financial statements and other indicators regarding your firm's capitalization.
20. Describe the credit line and trading limits that support/limit the office that would conduct business with SEDC.
21. What training would you provide to our employees and CEO?
22. Has your firm consistently complied with the capital adequacy guidelines of the Federal Reserve Bank, the Security and Exchange Commission or the National Association of Security Dealers, as applicable?

Which guidelines are applicable to your firm?

As of this date, does SEDC comply with the guidelines?

By what factor does your firm presently exceed the capital adequacy guidelines?

23. Do you participate in the S.I.P.C. insurance program?

24. Describe the portfolio information you require from your clients.
  
25. What reports, transactions, confirmations and paper trail will we receive?
  
26. Enclose a complete schedule of fees and charges for various transactions applicable to SEDC's investment interests.
  
27. How many and what percentage of your transactions failed last month? Last year?

I do hereby certify that to the best of my knowledge, all of the foregoing statements and answers are true and correct and I am a qualified representative of my firm as defined in Section 2256.002(10) of the Government Code and Section II H above.

BROKER/DEALER

\_\_\_\_\_

By: \_\_\_\_\_

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

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

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

**APPENDIX B**  
**Certification by Dealer**

This certification is executed on behalf of the Seguin Economic Development Corporation 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 Seguin Economic Development Corporation 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 Seguin Economic Development Corporation, and
3. The Dealer has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Dealer and the Seguin Economic Development Corporation 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

**APPENDIX C**  
**GLOSSARY OF INVESTMENT TERMINOLOGY**

**BOOK VALUE:** The face or par value of an investment plus accrued interest or minus amortization or accretion.

**CHIEF EXECUTIVE OFFICER (CEO):** Refers to the City of Seguin’s Director of Economic Development so long as the City is providing administrative and financial services to the SEDC. In the event the City of Seguin should cease providing such services to the SEDC, the term “Chief Executive Officer (CEO)” as used herein shall refer to that person so designated and authorized by resolution of the Board of Directors of the SEDC to carry out the duties and responsibilities of CEO in this Investment Policy.

**FUNDS:** Public funds in the custody of SEDC that are not required by law to be deposited in the state treasury and that SEDC has the authority to invest.

**INVESTMENT POOL:** An entity created under Public Funds Investment Act to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are:

- a) preservation and safety of principal;
- b) liquidity; and
- c) yield.

**MARKET VALUE:** The face or par value of an investment multiplied by the price quoted on the valuation date.

**QUALIFIED REPRESENTATIVE:** A person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

1. for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;
2. for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution;
3. for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool; or
4. for an investment management firm registered under the Investment Advisers Act of

1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

**REPURCHASE AGREEMENT:** A simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations of the United States, its agencies or instrumentalities (collectively, the "U.S."), at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed, including a direct security repurchase agreement, but specifically excluding a reverse security repurchase agreement.

**SEDC:** Seguin Economic Development Corporation.

**SCHERTZ-SEGUIN LOCAL  
GOVERNMENT CORPORATION  
INVESTMENT POLICY**

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# INVESTMENT POLICY

## I. POLICY STATEMENT

It is the policy of the Schertz-Seguin Local Government Corporation to invest public funds in a manner which will provide the maximum security of principal invested with secondary emphasis on providing the highest yield while meeting the daily cash flow needs of the Corporation and conforming to the Public Funds Investment Act, Tex. Gov't. Code Ann., Chapter 2256.

## II. SCOPE

This Investment Policy applies to all of the investment activities of the Schertz-Seguin Local Government Corporation. This policy establishes guidelines for those who can invest authorized funds, how Corporation funds will be invested, and when and how a periodic review of investments will be made. In addition to this Policy, bond funds (as defined by the Internal Revenue Service) shall be managed by their governing resolution and all applicable State and Federal Law.

All the listed 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. These funds are accounted for in the **Schertz-Seguin Local Government Corporation's Comprehensive Annual Financial Report** and include:

- a. Operating Fund
- b. Future Development Fund
- c. Debt Service Fund
- d. Construction Fund
- e. Repair/Replacement Fund
- f. Impact Fund
- g. *(Any new fund created, unless specifically exempted)*

## III. INVESTMENT OBJECTIVES

### Objectives and Investment Strategy

The Schertz-Seguin Local Government Corporation shall manage and invest its cash with the primary objectives of, listed in order of priority:

- **Safety** and preservation of principal
- Maintenance of sufficient **liquidity** to meet operating needs
- **Public trust** from prudent investment activities
- Optimization of **interest earnings** on the portfolio
- Diversification of investments

The safety of the principal invested always remains the primary objective.

**PRESERVATION and SAFETY of Principal**

The primary objective of all investment activity is the preservation of capital and the safety of principal in the overall portfolio. Each investment transaction shall seek to ensure first that capital losses are avoided. The objective will be to mitigate credit and interest rate risk.

- Credit risk – The Corporation will minimize credit risk, the risk of loss due to failure of the issuer, by:
  - Limiting investments to the safest types of investments
  - Pre-qualifying the financial institutions and brokers/dealers with which the Corporation will do business
  - Diversifying the investment portfolio so that potential losses on individual issuers will be minimized
  
- Interest Rate Risk – the Corporation will minimize the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates, by:
  - Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity
  - Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time

**Maintenance of Adequate LIQUIDITY**

The investment portfolio will remain sufficiently liquid to meet the cash flow requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements; investing in securities with active secondary markets; investing in local government investment pools; and maintaining appropriate portfolio diversification.

**PUBLIC TRUST**

All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local laws. All participants in the Corporation’s investment process shall seek to act responsibly as custodians of the public trust. Investment officers shall avoid any transaction that might impair public confidence in the Corporation’s ability to govern effectively.

**Return on Investment YIELD**

The Corporation shall invest local funds in investments that yield the highest possible rate of return while providing necessary protection of the principal consistent with the operating requirements as determined by the Corporation.

## **DIVERSIFICATION**

The Corporation's portfolio shall be diversified by market sector and maturity in order to avoid market risk.

### **Investment Strategy**

The Corporation's investment program uses a "pooled" investment strategy where all monies of all funds covered by this policy are combined and invested in a portfolio, which is stratified by various levels of maturities to meet the requirements of all working capital, construction and debt service funds. In some cases, one or more separate pools of funds may be established to meet specific requirements or yield restrictions for certain funds. By combining the net cash flows of all funds, the pooled investment strategy maximizes return on investment without sacrificing safety and liquidity because economies of scale can be taken advantage of to obtain better prices and reduce transaction and administrative costs. The dollar weighted average maturity for the pooled fund group will not exceed 18 months.

## **IV. RESPONSIBILITY AND CONTROL**

### **Authority to Invest**

The Corporation General Manager is designated as the "Investment Officer" of the Corporation. As Investment Officer he is authorized to invest, transfer, execute documentation, and otherwise manage Corporation funds according to the Policy.

The Investment Officer shall attend training to include a total of ten hours of training in each two-year period, that begins on the City's first day of the fiscal year (October 1) and ending two consecutive fiscal years after that date (September 30). A newly appointed Investment Officer must attend a training session of at least 10 hours of instruction within twelve months of the date the officer took office or assumed the officer's duties. Training must include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act. The investment training session shall be provided by an independent source approved by the Board of Directors. For purposes of this policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institution of higher education or any other sponsor other than a business organization with whom the Corporation may engage in an investment transaction. These include, but are not limited to, Texas Municipal League, Government Finance Officers' Association, Government Finance Officers' Association of Texas, Government Treasurers' Organization of Texas, Texas City Managers' Association, International City Managers' Association, or University of North Texas.

### **Standard of Care**

The standard of care used by Schertz-Seguin Local Government Corporation shall be the "prudent person rule" and shall be applied in the context of managing the overall portfolio within the applicable legal constraints. The Public Funds Investment Act states:

"Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." (Sec.2256.006 H.B. No 2459)

All participants in the investment process shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the Corporation.

### **Indemnification**

The Investment Officer, acting in accordance with written procedures and this policy, shall not be held personally liable for a specific security's credit risk or market price change, provided that any unexpected deviations are reported in a timely manner and that appropriate action is taken to control adverse developments.

### **Standards of Operation**

The Corporation Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program consistent with this investment.

### **Conflict of Interest**

An investment officer of an entity who has a personal business relationship with an entity seeking to sell an investment to the entity 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, to an individual seeking to sell an investment to the Investment Officer's entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity.

### **Compliance Audit**

In conjunction with the annual financial audit, the Corporation's independent auditors will perform a compliance audit of management controls on investments and adherence to the Corporation's established investment policies.

### **Monitoring**

Investment performance will be monitored and evaluated by the Investment Officer. Rating changes on investments acquired with public funds will be done on a weekly basis. Investment Pools will be monitored through the pool's website. All other investments will be monitored through an independent source. The investment officers will take all prudent measures that are consistent with its investment policy to liquidate an investment that does not meet the minimum rating.

## V. SUITABLE AND AUTHORIZED INVESTMENTS

### Authorized Investments

Investments described below are authorized by the Public Funds Investment Act as eligible securities for the Corporation. Corporation funds governed by the Policy may be invested in:

1. Obligations of the United States, its agencies and instrumentalities; (excluding mortgage backed securities).
2. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by two nationally recognized investment rating firms not less than A or its equivalent.
3. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.
4. Certificates of deposit:
  - A. the funds are invested by the Corporation through:
    - 1) a broker that has its main office or a branch office in Texas and is selected from a list adopted by the Corporation, or
    - 2) a depository institution that has its main office or a branch office in Texas and is selected by the Corporation.
  - B. the broker or depository institution selected by the Corporation arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Corporation.
  - C. the full amount of the principal and accrued interest of each of the certificates of deposit is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor, the United States or an instrumentality of the United States; and
  - D. the Corporation appoints the depository institution of the Corporation, an entity described by Section 2257.041(d), Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the Corporation with respect to the certificates of deposit issued for the account of the Corporation.
  - E. If the certificate of deposit is purchased from the Corporation's depository, depository must insure there is sufficient FDIC coverage or collateralization for the CD and the rest of the Corporation's funds.

5. Local government investment pools, which 1) meet the requirement of Chapter 2256.016 of the Public Funds Investment Act, 2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, 3) seek to maintain a \$1.00 net asset value, 4) are authorized by resolution or ordinance by the SSLGC Board of Directors, 5) may invest its funds in money market mutual funds to the extent permitted by and consistent with Section 2256.016, Government Code and the investment policies and objective adopted by the investment pool, 6) must furnish the investment officer a statement regarding how yield is calculated, 7) when created to function as a money market mutual fund shall report yield to its investors in accordance with regulations of the federal Securities and Exchange Commission applicable to money market funds, 8) provide information in a disclosure instrument or report described in Section 2256.016 (b), (c) (2) and (f), Government Code must be posted on its internet website, 9) must make available annual audited financial statements, and 10) if the investment pool offers fee breakpoints based on fund balances invested, the investment pool in advertising investment rates must include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested.
6. Money Market Mutual funds that are 1) registered and regulated by the Securities and Exchange Commission, 2) have a dollar weighted average stated maturity of 90 days or less, 3) rated AAA by at least one nationally recognized rating service, and 4) seek to maintain a net asset value of \$1.00 per share.
7. FDIC insured, brokered certificates of deposit securities from a bank in any US state, delivered versus payment to the Corporation's safekeeping agent, not to exceed one year maturity.

### **Prohibited Investments**

The Schertz-Seguin Local Government Corporation has no authority to use any of the following investment instruments which are strictly prohibited:

- (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 adjusts opposite to the changes in a market index.

## VI. INVESTMENT PARAMETERS

### Diversification and Maturity Limitations

It is the policy of the Schertz-Seguin Local Government Corporation to diversify its investment portfolio. Invested funds shall be diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

U. S. Treasuries and securities having principal and interest guaranteed by the U. S. Government .....	no more than 95%, max. 3 yrs.
U. S. Government agencies, instrumentalities and government sponsored enterprises .....	no more than 80%, max 3 yrs .
Fully insured or collateralized CD's.....	no more than 50%, max 3 yrs.
Local Government Investment Pool .....	up to 100%, but no more than 75% in one pool
Money Market Mutual Fund insured by the federal government.....	no more than 80%
Brokered CD Securities .....	no more than 20%, max 1 year

The Investment Officer shall be required to diversify maturities. The Investment Officer, to the extent possible, will attempt to match investments with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the Investment Officer will manage the portfolio to have an average maturity of no more than 18 months. Unless matched to a specific requirement, the Investment Officer may not invest any portion of the portfolio for a period greater than 3 years.

### Maximum Maturities:

a. Operating Fund

The weighted average days to maturity for the operating fund portfolio shall be less than 365 days.

b. Bond Proceeds

The investment maturity of bond proceeds (excluding reserve and debt service funds) shall generally be limited to the anticipated cash flow requirement.

c. Debt Service Funds

Debt Service Funds shall be invested to ensure adequate funding for each consecutive debt

service payment. The Investment Officer shall invest in such a manner as not to exceed the "unfunded" debt service date with the maturity of any investment. An unfunded debt service date is defined as a coupon or principal payment date that does not have cash or investment securities available to satisfy said payment.

d. Bond Reserve Funds

Market conditions, Bond Resolution constraints and, if applicable, Arbitrage regulation compliance will be considered when formulating Reserve Fund strategy. Maturity limitation shall generally not exceed the call provisions of the Bond Resolution and shall not exceed the final maturity of the bond issue.

e. Other Funds

The anticipated cash requirements of other Corporation funds will govern the appropriate maturity mix. Appropriate portfolio strategy shall be determined based on market conditions, Policy compliance, Corporation financial condition and risk/return constraints. Maximum maturity shall not exceed three years.

## VII. SELECTION OF BANKS AND DEALERS

### Qualified Institutions

The Schertz-Seguin Local Government Corporation shall invest Corporation funds with any or all of the following institutions or groups consistent with federal and state law and the current Depository Bank contract:

- (1) Depository bank (CD's only);
- (2) Other state or national banks domiciled in Texas that are insured by FDIC;
- (3) Public funds investment pools;
- (4) Primary or secondary government securities brokers and dealers; or
- (5) Eligible Money Market Mutual Funds

### Depository (Chapter 105, Local Government Code)

At least every five years, a Depository shall be selected through the Corporation's banking services procurement process, which shall include a formal request for proposal (RFP). The selection of a depository will be determined by competitive bid and evaluation of bids will be based on the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state law.

- The ability to provide requested information or financial statements for the periods specified.
- The ability to meet all requirements in the banking RFP.
- Complete response to all required items on the bid form.
- Lowest net banking service cost, consistent with the ability to provide an appropriate level of service.
- The credit worthiness and financial stability of the bank.

### **Qualified Brokers/Dealers**

In accordance with the Public Funds Investment Act, Section 2256.005(k), a written copy of this investment policy shall be presented to any person seeking to sell to the Corporation an authorized investment. The registered principal of the business organization seeking to sell an authorized investment shall complete the *Broker/Dealer Questionnaire* as provided in Appendix A of this investment policy and execute a written instrument substantially to the effect that the registered principal has:

- (1) received and thoroughly reviewed the investment policy of the Corporation; 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 Corporation and the organization.

The Corporation shall, at least annually, review, revise, and adopt a list of qualified brokers/dealers and financial institutions authorized to engage in securities transactions with the Corporation.

### **General Investment Practices**

All investment transactions shall be documented by the Investment Officer. The Investment Officer may make investments orally, but shall follow promptly with a written confirmation to the financial institution or broker/dealer, with a copy of such confirmation retained in the Corporation's files.

On investments, which do not fall under provisions of the Corporation's depository agreement, the Investment Officer may take competitive bids or negotiate with approved broker/dealers. At least three (3) quotations shall be taken for each competitive bid investment made. All broker/dealers must complete a broker/dealer questionnaire (Appendix A), be approved by the Investment Officer, and have a Certification (Appendix B) on file before any transactions transpire.

### **Delivery vs. Payment**

All security transactions done with the Corporation will be held by the Corporation's depository or the depository's corresponding bank on DVP (delivery versus payment) basis, with the exception of investment pools and mutual funds. Funds will be released after notification that the purchased security has been received.

## VIII. SAFEKEEPING OF SECURITIES AND COLLATERAL

### Safekeeping

The Corporation shall contract with a bank or banks for the safekeeping of securities either owned by the Corporation as part of its investment portfolio or held as collateral to secure demand or time deposits. Securities owned by the Corporation shall be held in the Corporation's name as evidenced by safekeeping receipts of the institution holding the securities.

Securities pledged as collateral must be retained in an independent third party bank that is chartered in the State of Texas, and the Corporation shall be provided the original safekeeping receipt on each pledged security. The Corporation, financial institution, and the safekeeping bank(s) shall operate in accordance with a master safekeeping agreement signed by all three parties. Collateral may be held by the depository bank's trust department, a Federal Reserve bank or branch of a Federal Reserve bank, a Federal Home Loan Bank, or a third party bank approved by the Corporation.

### Collateralization

Consistent with the requirements of the Public Funds Collateral Act, the Corporation requires all banks and savings and loan association deposits to be federally insured or collateralized with eligible securities. 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. Financial institutions serving as Corporation Depositories will be required to sign a Depository Agreement with the Corporation and the Corporation's safekeeping agent. The safekeeping portion of the Agreement shall define the Corporation's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- the Agreement must be in writing;
  - the Agreement has to be executed by the Depository and the Corporation contemporaneously with the acquisition of the asset;
  - the Agreement must be approved by the Board of Directors or the loan committee of the Depository and a copy of the meeting minutes must be delivered to the Corporation;
  - the Agreement must be part of the Depository's "official record" continuously since its execution.
- a. Allowable Collateral

The Corporation shall accept only the following types of collateral:

- Obligations of the United States or its agencies and instrumentalities
- Direct obligations of the state of Texas or its agencies and instrumentalities
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized rating firm not less than A or its equivalent with a remaining maturity of twenty (20) years or less

b. Collateral Substitution

Collateralized investments often require substitution of collateral. Any depository institution requesting substitution must contact the Investment Officer for approval and settlement. The substitution may be approved if its value is equal to or greater than 100% of the required security level. The Investment Officer must provide written notification of the decision to the bank or the safekeeping agent holding the security prior to any security release. The financial institutions with which the Corporation invests and/or maintains other deposits shall provide monthly, or as requested by the Corporation, a listing of the collateral pledged to the Corporation marked to current market prices. The listing shall include total pledged securities itemized by:

name, type and description of the security;  
 safekeeping receipt number;  
 par value;  
 current market value;  
 maturity date; and  
 Moody's or Standard & Poor's rating (both if available).

**Subject to Audit**

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

**IX. PERFORMANCE**

**Performance Standards**

The Corporation's investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles and commensurate with investment risk constraints and cash flow requirements of the Corporation.

## **Performance Benchmark**

It is the policy of the Corporation to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, the Corporation shall seek to optimize interest earnings utilizing allowable investments available on the market at that time. Market value will be calculated on a quarterly basis on all securities owned and compared to current book value. The Corporation's portfolio shall be designed with the objective of regularly meeting or exceeding the average rate of return on U.S. Treasury Bills at a maturity level comparable to the Corporation's weighted average maturity in days.

## **X. REPORTING**

### **Methods**

Internal management reports will be provided quarterly to the Corporation Board of Directors. The internal management report will include but is not limited to.

- (1) A detailed description of the investment position for the Corporation.
- (2) Contain a summary statement of each investment including:
  - (a) The beginning market value, additions and changes to the market value during the reporting period, the ending market value as of the reporting date, and fully accrued interest for the reporting period;
  - (b) book value and market value of each separately invested asset;
  - (c) state the compliance of the investment portfolio to the investment strategy and investment policy; and
  - (d) state the maturity date of each separately invested asset that has a maturity date.
- (3) Be prepared by the Investment Officer and contain Investment Officer signature.
- (4) State the pooled fund group for which each individual investment was acquired.

## **XI. INVESTMENT POLICY ADOPTION**

### **Policy Revisions**

The Investment Policy of the Schertz-Seguin Local Government Corporation may be amended by recommendation of the Investment Officer and action of the Corporation's Board of Directors.

Investment Policy revisions may become necessary with changes in state law, economy, and investment opportunities.

The Investment Policy of the Schertz-Seguin Local Government Corporation shall be reviewed annually by the Corporation's Board of Directors. Any modifications made thereto must be approved formally by the Corporation's Board of Directors.



BROKER/DEALER QUESTIONNAIRE  
PAGE 2

- 11) Have any of your public-sector clients ever sustained or claimed a loss on a securities transaction or loss of principal arising from a misunderstanding or misrepresentation of the risk characteristics of a recommended instrument purchased through your firm?
  
- 12) Has your firm ever been subject to a regulatory or state or federal agency investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sale of government securities of securities or money market instruments? If yes, please explain.
  
- 13) Please provide your wiring and delivery instructions.
  
- 14) Which instruments are offered regularly by your local desk?
  
- 15) Which of the above does your firm specialize in marketing?
  
- 16) What reports, transactions, confirmations and paper trail will we receive?
  
- 17) What precautions are taken by your firm to protect the interest of the public when dealing with government agencies as investors?



**APPENDIX B**  
**Certification by Dealer**

This certification is executed on behalf of the Schertz Seguin Local Government Corporation 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 Schertz Seguin Local Government Corporation 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 Schertz Seguin Local Government Corporation, and
3. The Dealer has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Dealer and the Schertz Seguin Local Government Corporation 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 OF INVESTMENT TERMINOLOGY

**AGENCIES:** Federal agency securities.

**ASKED:** The price at which securities are offered.

**BASIS POINT:** A basis point equals one one-hundredth of 1% (.01%).

**BID:** The price offered for securities.

**BOOK ENTRY SECURITIES:** All U.S. Treasury and Federal Agencies are maintained on computerized records at the Federal Reserve now known as “wireable” securities.

**BROKER:** A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides.

**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.

**CERTIFICATE OF DEPOSIT:** A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for the dealer's own account.

**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.

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

**DISCOUNT:** The difference between the cost price of security and its value at maturity when quoted at lower than face value.

**DISCOUNT SECURITIES:** Securities that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury bills. Interest is received at maturity.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities and financial institutions offering.

**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 FUNDS:** Non-interest bearing deposits held by member banks at the Federal Reserve.

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

**FEDERAL DEPOSIT INSURANCE CORPORATION:** A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

**FEDERAL HOME LOAN BANKS:** The institutions that regulate and lend to savings and loan associations.

**FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC):** A U. S. corporation and instrumentality of the U. S. Government. Through its purchases of conventional mortgages, it provides liquidity to the mortgage markets, much like FNMA. FHLMC's securities are highly liquid and widely accepted. FHLMC assumes and guarantees that all security holders will receive timely payment of principal and interest.

**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 & Urban Development. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA 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 Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** The 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 guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loans associations and other institutions. Security holders are protected by full faith and credit of the U.S. Government.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

**LOCAL AGENCY INVESTMENT FUND (LAIF):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurers for investment.

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

**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, banker's acceptances, etc.) are issued and traded.

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

**PORTFOLIO:** Collection of securities held by an investor.

**PRIMARY DEALER:** A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight.

**PRIME RATE:** The rate at which banks lend to their best or "prime" customers.

**QUALIFIED REPRESENTATIVE:** A person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

1. for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;
2. for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution;
3. for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool; or
4. for an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that

Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price.

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held for protection.

**SECONDARY MARKET:** A market 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.

**SETTLEMENT DATE:** The date on which a trade is cleared by delivery of securities against funds. This date may be the same as the trade date or later.

**TRADE DATE:** The date on which a transaction is initiated or entered into by the buyer or seller.

**TREASURY BILL:** A discount security issued by the U.S. Treasury to finance the national debt that matures from three months to one year.

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

**TREASURY NOTES:** Intermediate term U.S. Treasury securities having initial maturities from one to ten years.

**WHEN-ISSUED TRADES:** Typically, there is a delay between the time a new bond is announced and sold, and the time when it is actually issued. During this interval, the security trades "wi," "when, as, and if issued."

**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 security.