

City of Cut and Shoot



**REQUEST FOR APPLICATIONS
BANK DEPOSITORY SERVICES
RFA - 2026 - MAY**

Proposal Due Date
MAY 13, 2026
2:00 pm

The City of Cut and Shoot,
14391 HIGHWAY 105 E
CONROE, TX 77306

Phone: 936-264-3100
Date: APRIL 23, 2026

TABLE OF CONTENTS

Table of Contents	2
Notice to Vendors	3
Anticipated Schedule of Events	4
I. Introduction	5
II. Proposal Instructions and Qualifications	5
III. Required Financial Institution Information	6
IV. Required Banking Services	6
V. Other Services	10
VI. Bank Compensation	10
VII. Required Disclosures	11
VIII. Required Certifications	12
Attachment A: Banking Services & Charges	14
Attachment B: City Account Activities	15
Attachment C: City of Cut and Shoot Investment Policy	17
Attachment D: Conflict of Interest Questionnaire	26

NOTICE TO VENDORS

Sealed proposals will be received by the City of Cut and Shoot, Texas at the office of the City Secretary, 14391 Highway 105 E, Conroe, Tx. 77306, until 2:00 PM, CST, May 13, 2026, for the purchase of services as follows per proposal instructions and specifications:

REQUEST FOR APPLICATIONS FOR BANK DEPOSITORY SERVICES RFA-2026 - MAY

Qualified prospective Proposers may obtain copies of the RFA on the City website: www.cutandshoot.org or by email to cs@cutandshoot.org. Proposals received later than the date and time above will not be considered in the proposal process.

The Cut and Shoot City Council reserves the right to accept or reject any proposals or any part thereof or any combination of proposals and to waive any or all formalities in any proposal, and to make an award in any manner, consistent with law, deemed in the best interests of the City.

The City will limit the selection of those financial institutions to specified locations outside of the City's municipal boundaries, determined by the consideration of operational convenience and increase competitiveness. The specified locations will be determined by City staff and disclosed in the Notice, advertisements (local and general circulation), and the Request for Applications.

First National Bank of Conroe
704 E Davis St
Conroe, TX 77301

First Financial Bank
11399 Hwy 105 E
Conroe, TX 77301

ANTICIPATED SCHEDULE OF EVENTS

Thursday, March 12, 2026..... Request Council approval to issue RFA
Friday, March 20, 2026..... Issue RFA
Wednesday, April 22, 2026, at 2:00 PM..... Deadline for questions from proposers
Wednesday, May 13, 2026 at 2:00 PM..... Deadline for proposal submissions
Thursday, May 14, 2026 at 6:00 PM Proposal opening
Thursday, May 14, 2026 at 6:00 PM Council selection of bank
Monday, June 1, 2026 Contract term begins

I. INTRODUCTION

The City of Cut and Shoot, Texas is requesting proposals for a banking services contract with service to begin June 1, 2026 and extending through June 1, 2031. Through this contract, the City intends to minimize banking costs, improve operational efficiency, and maximize investment capabilities. This Request for Applications (RFA) represents the cash management goals, specifies all banks' required qualifications, the banking services required, the estimated activity volumes on all accounts, the method and terms of compensation, submission instructions and the contract award provisions.

II. PROPOSAL INSTRUCTIONS AND QUALIFICATIONS

A. Minimum Qualifications

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

B. Proposal Submission Instructions

1. Proposal Format

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

2. Submission Requirements

Proposals for the services specified will be received by the City of Cut and Shoot until May 13, 2026 at 2:00 PM. Please submit one (1) original proposal in hard copy only, and one (1) copy of the proposal in pdf format on a flash drive. The address for delivery of submissions is:

City Secretary
City of Cut and Shoot
14391 Hwy. 105 E
Conroe, TX 77306

Late submissions will not be considered. Proposals received after the deadline will be returned unopened.

3. RFA Questions

Questions regarding this RFA or the service requested should be in writing, directed to Lavonne Renfro, City Secretary at cs@cutandshoot.com. The deadline for submission of questions is 2:00 PM on Wednesday, May 13, 2026. No questions or communications should be directed to any other City employees or any elected officials.

4. RFA Amendments

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

5. Selection Criteria

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

- Ability of applicant to perform and provide the required and requested services;
- References provided and quality of services;
- Cost of services;
- Transition cost, retention and transition offers, and incentives;
- Interest rates on interest bearing accounts and deposits;

- Earnings credit rate on compensating balances;
- Previous service relationship with the City;
- Convenience of location(s);
- Completeness of application; and
- Financial strength and stability of the institution.

6. Council selection of bank

The selection is scheduled to be at the Thursday, May 14, 2026, meeting of the City of Cut and Shoot City Council.

III. REQUIRED FINANCIAL INSTITUTION INFORMATION

All banks must provide, as part of the proposal:

- audited financial statements for the most recent fiscal year,
- a copy of the current call report, and
- a statement regarding any recent or foreseen merger or acquisition.

IV. REQUIRED BANKING SERVICES

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

A. Consolidated Account Structure

The City’s banking structure currently consists of seven (7) accounts. The General Fund account is the main account for deposits, payroll, and accounts payable. The City uses ACH for both payment and receipt of items in the General Fund and the Water account. The City uses wire transfers for payment of some obligations out of the General or Water account. The City desires reserve/money market accounts to be interest bearing.

Account	Account Type
General Fund	Commercial Checking Account w/Interest - Public Funds
Reserve Fund	Money Market Account w/Interest - Public Funds
Building Security Fund	Commercial Checking Account - Public Funds
Municipal Court/Police Fund	Commercial Checking Account - Public Funds
Debt Service Fund	Money Market Account w/Interest - Public Funds
Water Fund	Commercial Checking Account w/Interest - Public Funds
Construction Fund	Commercial Checking Account - Public Funds

B. Wire Transfer Services

A standard wire transfer agreement will be executed with the bank. This proposal should include a copy of your standard transfer procedures and wire transfer agreement. The City requires adequate security provisions and procedures. Information should be submitted detailing the use of online wire transfer requests. The City requires:

- The ability to initiate and monitor wire transfers online;
- The ability to create and store recurring/repetitive wire instructions/templates;
- The ability to create and store future dated wire instructions; and
- Security measures for wire initiation and approval.

YES, can provide as requested/required. NO, cannot provide as requested/required.

C. Automated Daily Balance Reporting

The City requires an automated PC-based reporting system for access to the closing ledger and available balances. Stipulate the time at which the access is available and describe the system to be used. Reporting should include balance and detail reporting. Samples of the reports are to be included in the proposal.

YES, can provide as requested/required. NO, cannot provide as requested/required.

D. Sweep Account Provisions

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

YES, can provide as requested/required. NO, cannot provide as requested/required.

E. Investment of Idle Funds and Safekeeping of City Securities

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

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

YES, can provide as requested/required. NO, cannot provide as requested/required.

F. Standard Disbursing Services

Standard disbursing services for all accounts are required to include the payment of all checks upon presentation. Checks drawn on City accounts at your institution presented by City of Cut and Shoot employees will be cashed at no charge.

YES, can provide as requested/required. NO, cannot provide as requested/required.

G. Standard Deposit Services

The bank must guarantee immediate credit on all incoming wire transfers and U.S. Treasury checks upon receipt and all other checks based on the bank’s published availability schedule. The Bank should specify in their proposal their deposit requirements and commercial and retail deposit locations, including night deposit services and procedures.

YES, can provide as requested/required. NO, cannot provide as requested/required.

H. Online Banking Services

The institution shall offer internet access for the inquiry of account balances and activity for all bank accounts. This access should be available by using a password set by the City. In addition, the institution shall offer online transfer of City funds between accounts held within the institution. The transfers should be credited and debited to the related accounts on the same business day of the transfer, if the request is received by 4:00 p.m.

Provide a detailed description of online services and a list of all capabilities, including ability to provide the following basic services:

Reporting:

- Daily balance reporting summary
- Daily balancing reporting detail (with check detail and images)
- Daily ACH and wire with full addenda information

Execution of Transactions:

- Transfers between accounts
- Initiation of wire transfers
- Initiation of stop payment orders
- Initiation of ACH transactions; recurring/repetitive/future ACH debit (collection or credit (Direct deposit) transactions
- Maintenance of wire transfer templates

Initial Controls:

- Online cleared check information/images
- Multi-level security administration requirements
- Training of City’s administrator for managing access

YES, can provide as requested/required. NO, cannot provide as requested/required.

I. Reporting and Account Analysis

Monthly account analysis reports must be provided by the bank on a timely basis for each account and on a total account basis. A detailed analysis should include all charges against each account and a consolidated analysis. A sample account analysis format must be provided as part of the proposal. All checks cleared (both front and back) must be returned to the City in paper or online printable format. The City requires calendar month bank statements. (Beginning the 1st day of the month and ending the last day of the month). Samples of monthly statements should also be provided. The monthly statements are to be received within five business days of the last day of the month.

YES, can provide as requested/required. NO, cannot provide as requested/required.

J. Account Executive

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

YES, can provide as requested/required. NO, cannot provide as requested/required.

K. Direct Deposit

The banking institution must be able to provide direct deposit through a computer interface with the City via the Internet. Include a schedule of funding for direct deposit so that payroll is available for City employees at 12:01 a.m. on the 15th of each month and the last day of the month. Also, include a sample direct deposit agreement with your proposal. Describe the requirements and deadlines for computer tap for ACH transactions. The proposal should indicate when funds will be available in participating banks.

YES, can provide as requested/required. NO, cannot provide as requested/required.

L. Daylight Overdraft Provisions

Every effort will be made to eliminate daylight overdraft situations on the account. However, if this situation arises, the proposal should include any bank policies regarding daylight overdraft charges or handling procedures.

YES, can provide as requested/required. NO, cannot provide as requested/required.

M. Stop Payments

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

YES, can provide as requested/required. NO, cannot provide as requested/required.

N. Collateralization of Deposits

The bank must agree to obtain and maintain acceptable collateral sufficient to cover all anticipated time and demand deposits above the FDIC-insured limit of \$250,000. Securities used to pledge against time and demand deposits must be held in an independent third-party safekeeping institution outside the bank’s holding company. The bank will execute a tri-party safekeeping agreement with the City and the Safekeeping bank for the safekeeping of these securities. Collateral will be maintained at a minimum of 102% and marked to market at least once a month. Control will be shared jointly between the bank and the entity. Substitution will be approved by the City and not unduly withheld. Substitutions of collateral will be requested in writing and new collateral will be received before the existing collateral is released. The proposal will name the safekeeping bank for collateral. The City requires monthly collateral reports. Please provide a sample collateral report with your proposal.

YES, can provide as requested/required. NO, cannot provide as requested/required.

O. Positive Pay

Positive pay is required to safeguard against fraudulent checks. The City would electronically transmit the issued check file to the bank. The bank would only honor those checks issued by the City pre-authorized through the positive pay system.

YES, can provide as requested/required. NO, cannot provide as requested/required.

P. Additional Services

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

V. OTHER SERVICES

The City is interested in obtaining service and cost information on additional services for possible use during the contract period. These services are not required but will be evaluated in terms of availability, feasibility, service levels, service providers and cost. The City will make its determination after receipt of proposals as to whether a service will be used. If the service is accepted later in the contract period the services and charges stipulated in the proposal will be applied.

VI. BANK COMPENSATION

Any net settlement on compensating balances will be made annually. Describe the compensating balance calculation and address fee when credits do not cover charged fees. If fees are chosen as the payment methodology, fees will be paid monthly after receipt of the account analysis.

VII. REQUIRED DISCLOSURES

As defined in Section 105.015 (c), each applicant shall comply with the conflict-of-interest provision of Section 131.903 of the Texas Local Government Code in regard to the selection of the depositories:

Sec. 131.903. CONFLICT OF INTEREST.

(a) A bank is not disqualified from serving as a depository for funds of a political subdivision if:

(1) an officer or employee of the political subdivision who does not have the duty to select the political subdivision's depository is an officer, director, or shareholder of the bank; or

(2) one or more officers or employees of the political subdivision who have the duty to select the political subdivision's depository are officers or directors of the bank or own or have a beneficial interest, individually or collectively, in 10 percent or less of the outstanding capital stock of the bank, if:

(A) a majority of the members of the board, commission, or other body of the political subdivision vote to select the bank as a depository; and

(B) the interested officer or employee does not vote or take part in the proceedings.

(b) This section may not be construed as changing or superseding a conflicting provision in the charter of a home-rule municipality.

In addition, the following disclosures apply:

Pursuant to Chapter 176 of the Texas Local Government Code, a person, or agent of a person, who contracts or seeks to contract for the sale or purchase of property, goods, or services with the City of Cut and Shoot, Texas must file a completed **conflict of interest questionnaire** which is available at <http://www.ethics.state.tx.us>. The conflict of interest questionnaire must be filed with the City of Cut and Shoot, Texas no later than the seventh business day after the later of the date that the person or agent begins contract discussions or negotiations with the City or submits to the City an application, response to a request for proposal or bid, correspondence, or writing related to a potential agreement. An updated conflict of interest questionnaire must be filed in accordance with Chapter 176 of the Texas Local Government Code. An offense under Chapter 176 is a Class C misdemeanor.

Certificate of interested parties:

Section 2252.908 of the Texas Government Code applies to all contracts entered into on or after January 1, 2016. The law states that a governmental entity may not enter into certain contracts with a business entity unless the business entity submits a disclosure of interested parties to the governmental entity at the time the business entity submits the signed contract to the governmental entity. The law applies, with a few exceptions, to all contracts/purchases of a governmental entity that require action or vote by the governing body of the entity. The electronic filing application process can be started on the Texas Ethics Commission website at <http://www.ethics.state.tx.us>. The City acknowledges that publicly traded business entities are exempt from this requirement.

In compliance with Chapter 2252 Subchapter F, of the Texas Government Code, prohibiting government contracts with a company doing business with Iran, Sudan or a foreign terrorist organization, the City of Cut and Shoot, Texas will not enter into a contract with a company reported on the LISTED COMPANIES per Section 2252.153.

VIII. REQUIRED CERTIFICATIONS

A. Certification Regarding Boycotting of Israel

Texas Government Code, Title 10, Subtitle F, Chapter 2271.002 - Provision Required in Contract.

- 1. This section applies only to a contract that:
 - a. Is between a governmental entity and a company with 10 or more full-time employees; and
 - b. Has a value of \$100,000 or more that is to be paid wholly or partly from public funds of the government entity.
- 2. A governmental entity may not enter into a contract with a company for goods or services unless the contract contains a written verification from the company that it:
 - a. Does not boycott Israel; and
 - b. Will not boycott Israel during the term of the contract.

<input type="checkbox"/> AGREE.	<input type="checkbox"/> DO NOT AGREE
---------------------------------	---------------------------------------

B. Certification Regarding Boycotting of Certain Energy Companies

Texas Government Code, Title 10, Subtitle F, Chapter 2274.002 - Provision Required in Contract.

- 1. This section applies only to a contract that:
 - a. Is between a governmental entity and a company with 10 or more full-time employees; and
 - b. Has a value of \$100,000 or more that is to be paid wholly or partly from public funds of the government entity.
- 2. Except as provided in Subsection 3, a governmental entity may not enter into a contract with a company for goods or services unless the contract contains a written verification from the company that it:
 - a. Does not boycott energy companies; and
 - b. Will not boycott energy companies during the term of the contract.
- 3. Subsection 2 does not apply to a governmental entity that determines the requirement of Subsection 2 are inconsistent with the governmental entity’s constitutional or statutory duties related to the issuance, incurrence, or management of debt obligations or the deposit, custody, management, borrowing, or investment of funds.

<input type="checkbox"/> AGREE.	<input type="checkbox"/> DO NOT AGREE
---------------------------------	---------------------------------------

C. Certification Regarding Boycotting of Firearms Entity or Firearms Trade Association

Texas Government Code, Title 10, Subtitle F, Chapter 2274.002 - Provision Required in Contract.

- 1. This section applies only to a contract that:
 - a. Is between a governmental entity and a company with at least 10 full-time employees; and
 - b. Has a value of at least \$100,000 that is paid wholly or partly from public funds of the government entity.
- 2. Except as provided by Subsection 3 and Section 2274.003, a governmental entity may not enter into a contract with a company for the purchase of goods or services unless the contract contains a written verification from the company that it:
 - a. Does not have a practice, policy, guidance, or directive that discriminates against a firearm entity of firearm trade association; and
 - b. Will not discriminate during the term of the contract against a firearm entity or firearm trade association.
- 3. Subsection 2 does not apply to a governmental entity that:
 - a. Contracts with a sole-source provider; or

b. Does not receive any bids from a company that is able to provide the written verification required by that subsection.

AGREE.

DO NOT AGREE

ATTACHMENT A - BANKING SERVICES & CHARGES

Any and all anticipated service charges must be shown on this form to be applicable under the agreement.

Add additional charges in the lines provided below.

Service Unit	Unit Charge	Cost of Service
Account Maintenance	Per month	
Daily Balance Reporting	Per month	
Credits Posted	Per transaction	
Items Deposited		
Deposits	Per transaction	
Debits Posted	Per transaction	
Encoding charge	Per transaction	
ACH Processing	Per transaction	
Origination of file	Per tape	
ACH deletions	Per transaction	
ACH entries	Per transaction	
ACH returns	Per transaction	
ACH maintenance	Per month	
Chargeback items	Per transaction	
Stop payments	Per transaction	
Wire Transfers		
Incoming	Per transaction	
Outgoing	Per transaction	
Investment Safekeeping		
Safekeeping interest/credit	Per transaction	
Safekeeping receipt deposit	Per transaction	
Safekeeping outgoing	Per transaction	
Extra Statements	Per transaction	
Disposable Bank Bags	Per Item	
Online Banking		
Online account access	Per transaction	
Transfers	Per Item	
Payroll Cards	Per Item/Transaction	
Positive Pay	Per transaction	

ATTACHMENT B – CITY ACCOUNT ACTIVITIES

The City’s current accounts and activity are as follows:

**CITY OF CUT AND
SHOOT, TEXAS
MONTHLY BANK
TRANSACTIONS
BASED ON MARCH 2026 TRANSACTIONS**

Account	Beginning Balance	Credits		Debits		Ending Balance
		Number	Amount	Number	Amount	
General Fund	\$1,260,414.17	29	\$65,352.69	61	\$75,944.99	\$1,025,862.72
Reserve Fund	\$ 708,340.72	1	\$1,985.15	0	\$0.00	\$ 710,325.87
Building Security Fund	\$ 1,968.07	0	\$0.00	0	\$0.00	\$ 1,968.07
Municipal Court/Police Fund	\$ 4,436.38	0	\$0.00	0	\$0.00	\$ 4,436.38
Debt Service Fund	\$543,368.51	1	\$1,518.56	0	\$0.00	\$544,887.07
Water Fund	\$1,763,114.81	94	\$ 1,052,640.30	15	\$74,977.06	\$2,399,245.66
Construction Fund	\$1,981.50	0	\$0.00	0	\$0.00	\$1,981.50

ATTACHMENT C – INVESTMENT POLICY

CITY OF CUT AND SHOOT, TEXAS INVESTMENT POLICY

I. POLICY

It is the policy of the City of Cut and Shoot (herein after referred to as “City”) that after allowing for the anticipated cash flow requirements of the City and giving due consideration to the safety and risk of the investment, all available funds shall be invested in conformance with these legal and administrative guidelines, seeking to optimize interest earnings to the maximum extent possible.

Effective cash management is recognized as essential to good fiscal management. Investment interest is a source of revenue to the City. The City’s investment portfolio shall be designed and managed in a manner to be responsive to public trust, and to be in compliance with legal requirements and limitations.

Investments shall be made with the primary objectives of:

- 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

II. PURPOSE

The purpose of this Investment Policy is to comply with Chapter 2256 of the Government Code (“Public Funds Investment Act”), which requires each local government to adopt a written investment policy regarding the investment of its funds and funds under its control. The Investment Policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the City’s funds.

III. SCOPE

This Investment Policy shall govern the investment of all financial assets of the City. These funds are accounted for in the City’s Comprehensive Annual Financial Report (CAFR) and include;

- General Funds
- Water Funds
- Court/Police Funds
- Capital Projects Funds
- Other funds established from time to time

Except for cash in certain restricted and special funds, the City may consolidate cash and investment balances to ease cash management operations and maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

This Investment Policy shall apply to all transactions involving the financial assets and related activity for all the 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.

IV. INVESTMENT OBJECTIVES

The City shall manage and invest its cash with four primary objectives, listed in order of priority; safety, liquidity, public trust, yield, expressed as optimization of interest earnings. The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsible to the public trust and consistent with State and local law.

1. Safety

Safety of principle is the foremost objective of the investment program. Investment for speculation is prohibited. No individual or group of transactions shall be undertaken that would jeopardize the total capital sum of the overall portfolio. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit and interest rate risk.

- A. Credit Risk – The City will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, by:
 - 1. Limiting investments to the safest types of investments.
 - 2. Pre-qualifying the financial institutions and brokers/dealers with which the City will do business.
 - 3. Diversifying the investment portfolio so that potential losses on individual issuers will be minimized.

- B. 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:
 - 1. 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.
 - 2. Investing operating funds primarily in shorter-term securities, money market mutual funds, local government investment pools functioning as money market mutual funds, or certificates of deposit.
 - 3. Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands (static liquidity). Because all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in money market mutual funds or local government investment pools that offer same-day liquidity.

3. Public Trust

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

4. Yield (Optimization of Interest Earnings)

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

V. RESPONSIBILITY AND CONTROL

1. Delegations of Authority

Authority to manage and operate the investment program is granted to the Director of Finance. The Director of Finance shall establish written procedures and internal controls for the operation of the investment program consistent with this Investment Policy. Procedures should include, but not limited to, references to: account management procedures, cash flow estimation procedures, investment transaction procedures, authorized dealer selection process, and investment portfolio reporting requirements.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Finance. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of the Authorized Investment Officers.

The Authorized Investment Officers include:

- A. Director of Finance, or another officer as appointed by the City
- B. Financial Analyst

1. Quality and Capability of Investment Management

The City shall provide periodic training in investments for the designated Investment Officers through courses and seminars offered by professional organizations, associations, and other independent sources in order to ensure the quality and capability of investment management in compliance with the Public Funds Investment Act.

2. Training Requirement

In accordance with the Public Funds Investment Act, designated Investment Officers shall attend an investment training session no less often than once every two years and shall receive not less than 10 years of instruction relating to investment responsibilities. 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.

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.

Sources approved to provide training to the City's Investment Officers include:

- A. Government Finance Officers Association (GFOA)
- B. Government Finance Officers Association of Texas (GFOAT)
- C. Government Treasurers' Organization of Texas (GTOT)
- D. University of North Texas Cent for Public Management
- E. Texas Municipal League (TML)

4. Internal Controls

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the Director of Finance shall establish a process for independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points.

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

5. Prudence

The standard of prudence to be applied by the Investment Officers shall be the "prudent investor" rule, which states that "Investments shall be made with judgment and care, under circumstances then prevailing, which person of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, consider the probable safety of their capital as well as the probable income to be derived." In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration;

- A. The investment of all funds, or funds under the City's control, over which the Officer had responsibility, rather than a consideration as to the prudence of a single investment.
- B. Whether the investment decision was consistent with the written approved Investment Policy of the City

6. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that would conflict with the proper execution and management of the investment program, or that would impair their ability to make impartial decisions. Investment Officers shall disclose any material interests in financial institutions with which they conduct investment business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and Officers shall refrain from undertaking

personal investment transactions with the same individual with which business is conducted on behalf of the City.

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

VI. SUITABLE AND AUTHORIZED INVESTMENTS

1. Portfolio Management

The city will implement a “buy and hold” portfolio strategy. Maturity dates are matched with cash flow requirements and investments are purchased with the intent to be held until maturity. Securities shall not be sold prior to maturity with the following exceptions:

- A. A security with declining credit may be sold early to minimize loss of principal.
- B. A security swap would improve the quality, yield, or target duration in the portfolio.
- C. Liquidity needs of the portfolio require that the security be sold.

2. Investments

City funds governed by this policy may be invested in the instruments described below, all of which are authorized by Chapter 2256 of the Government Code (Public Funds Investment Act). Investment of City funds in any instrument or security not authorized for investment is prohibited. The city will not be required to liquidate an investment that becomes unauthorized subsequent to its purchase.

A. Authorized

- 1. Obligations of the United States of America, its agencies and instrumentalities.
- 2. Certificates of Deposit issued by a bank approved by the City Council and organized under Texas law, the laws of another state, or federal law, that has its main office or a branch office in Texas, or by a savings and loan association or a savings bank organized under Texas law, the laws of another state, or federal law, that has its main office or a branch office in Texas and that is guaranteed or insured by the Federal Deposit Insurance or its successor or secured by obligations in a manner and amount provided by law for deposits of the City.
- 3. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States, its agencies or instrumentalities. These shall be pledged to the City, held in the City’s name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City. The following provisions shall apply to repurchase agreements:
 - A. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas.
 - B. A Master Repurchase Agreement must be signed by the bank/dealer prior to investment in a repurchase agreement.

- C. All securities purchased under such repurchase agreement shall be held by a custodial (safekeeping) agent as approved by the City. All repurchase agreement transactions will be on a delivery vs. payment basis.
 - D. The seller of repurchase agreement securities shall be entitled to substitute securities by the City
4. No-Load Money Market Mutual funds that are:
 - A. Registered and regulated by the Securities and Exchange Commission,
 - B. Provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940,
 - C. Have a dollar weighted average stated maturity of 90 days or less,
 - D. Rated AAA by at least one nationally recognized rating service, and
 - E. Seek to maintain a net asset value of \$1.00 per share.
 5. Local government investment pools, which:
 - A. Meet the requirements of Chapter 2256.016 of the Public Funds Investment Act,
 - B. Are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service,
 - C. Seek to maintain a \$1.00 net asset value, and
 - D. Are authorized by resolution or ordinance by City Council.
 6. Obligations of the State of Texas or its agencies and instrumentalities.
 7. Obligations of States, Agencies, Counties, Cities, and other political subdivisions of any State rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.
 8. Commercial Paper that has a stated final maturity of 270 days or fewer from the date of its issuance and is rated A-1, P-1, or equivalent rating by at least two nationally recognized credit rating agencies.
 9. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

VII. INVESTMENT PARAMETERS

1. Maximum Maturities

The longer the maturity of investments, the greater their price volatility. Therefore, it is the City's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates. The city attempts to match its investments with anticipated cash flow requirements. Maturities will be staggered up to 24 months to provide adequate cash flow. The maximum dollar-weighted average maturity for the entire portfolio shall be limited to 365 days.

Because no secondary market exists for repurchase agreements, the maximum maturity shall be 120 except in the case of a flexible repurchase agreement for bond proceeds. The maximum maturity for such an investment shall be determined in accordance with project cash flow projections and the requirements of the governing bond ordinance.

2. Diversification

The city recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio

diversification that shall be achieved by the following general guidelines:

- A. Limiting investments to avoid over concentration in investments from a specific issuer or business sector (excluding U.S. Treasury securities and certificates of deposit that are fully insured and collateralized in accordance with state and federal law).
- B. Limiting investment in securities that have higher credit risks (example: commercial paper),
- C. Investing in investments with varying maturities, and
- D. Continuously investing a portion of the portfolio in readily available funds such as local government investments pools (LGIPs), money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

Specific Limits in the portfolio to ensure diversity are:

- A. At least 20% of the portfolio will be invested in direct obligations of the United States
- B. With the exception of direct obligations of the United States, securities from one issuer may not make up more than 25% of the total portfolio.
- C. Not less than 10% of the portfolio will be maintained in Money Market Funds, Investment Pools, or similar vehicles with high liquidity.
- D. Collateralized mortgage obligations shall not make up more than 10% of the total portfolio.

VIII. SELECTION OF BANKS AND DEALERS

1. Depository

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 certain selection criteria.

2. Authorized Brokers/Dealers

The city will transact its government securities business with local banks, primary dealers that report to the New York Federal Reserve Bank, and other broker/dealers that maintain liquid capital in excess of their market and credit risk by 20% (1.2:1 capital to risk standard).

All investment providers, including financial institutions, banks, money market mutual funds, and local government investment pools, must sign a certification verifying that the organization has received and thoroughly reviewed the City's Investment Policy, provided copies of the investment policies to subordinate staff persons assigned to the City's account, and implemented reasonable procedures and controls to preclude investment transactions that are not authorized by the City's Policy.

The City shall, at least annually, review and adopt a list of qualified broker/dealers and financial institutions authorized to engage in securities transactions with the City. The approved list can be seen in Exhibit A attached to this policy.

3. Competitive Bids

The city authorizes the designated Investment Officers to solicit offerings for investments. Generally, the City will seek competitive offerings before it invests surplus funds. The City will accept the

offerings which provide the highest rate of return within the maturity required and within the guidelines of this Policy.

The city recognizes that a competitive offering process is not always necessary or is not always in the best interest of the City. On these occasions, the Investment Officers are authorized to purchase a security without seeking competitive offerings. Examples of these occasions are;

- A. Market conditions are changing rapidly.
- B. The security is a “new issue” that is still in the primary market.
- C. A specific type of security, maturity date, or rate of return is sought that may not be immediately available.

4. Delivery vs. Payment

Securities shall be purchased using the delivery vs. payment method with the exception of investment pools and mutual funds. Funds will be released after notification that the purchased security has been received.

IX. SAFEKEEPING OF SECURITIES AND COLLATERAL

1. Safekeeping and Custodian Agreements

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.

Collateral for deposits will be held by a third-party custodian designated by the City and pledged to the City as evidenced by safekeeping receipts of the institution with which the collateral is deposited. Original safekeeping receipts shall be obtained. Collateral may be held by a Federal Reserve Bank or branch of a Federal Reserve Bank, a State or National bank domiciled within Texas, which has a capital stock and permanent surplus of not less than \$5 million, a Federal Home Loan Bank, or a third-party bank approved by the City.

2. Collateral Policy

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all uninsured City funds on deposit with a depository bank, other than investments. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be not less than 110 % of the amount of uninsured deposits. Determination of the market value of the collateral will be calculated monthly or more frequently upon request by the City.

At its discretion, the City may require a higher level of collateralization for certain investment securities. Securities pledged as collateral shall be held by an independent third party with which the City has a current custodial agreement. The Director of Finance is responsible for entering into collateralization agreements with third party custodians in compliance with this policy.

The agreements are to specify the acceptable investment securities for collateral, including provisions

relating to possession of the collateral, the substitution or release of investment securities, ownership or securities, and the method of valuation of securities. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities is adequate.

3. Collateral Defined

The City shall accept only the following types of collateral, as restricted by law:

- A. General obligations of the United States of America or its agencies or instrumentalities backed by its full faith and credit.
- B. Direct obligations of the State of Texas or Texas State agencies and instrumentalities.
- C. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States of America, the underlying security for which is guaranteed by an agency or instrumentality of the United States of America.
- D. Other obligations, the principal 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 of America or their respective agencies and instrumentalities.
- E. Fixed-rate collateralized mortgage obligations that have an expected weighted average life of 10 years or less and which do not constitute a high-risk mortgage security as defined in the Public Funds Law
- F. Floating-rate collateralized mortgage obligations that do not constitute a high-risk mortgage security as defined in the Public Funds Law

4. Subject to Audit

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

X. 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.

XI. REPORTING

1. Methods

The Financial Analyst shall prepare an investment report on a quarterly basis that summarizes investment strategies employed in the most recent quarter and describes the portfolio in terms of investment securities and maturities, and shall explain the total investment return for the quarter.

The quarterly investment report shall include a summary statement of investment activity prepared in compliance with generally accepted accounting principles. This summary will be prepared in a manner that will allow the City to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will be provided to the Finance Committee and City Council. The report will include the following:

- A. A listing of individual securities held at the end of the reporting period.

- B. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period.
- C. Additions and changes to the market value during the period.
- D. Average weighted yield to maturity of portfolio.
- E. Listing of investments by maturity date.
- F. Fully accrued interest for the reporting period.
- G. The percentage of the portfolio that each type of investment represents.
- H. Statement of compliance with the Public Funds Investment Act and this policy.
- I. Signature of all Investment Officers.

An independent auditor will perform a formal annual review of the quarterly reports with the results reported to the governing body.

2. Monitoring Market Value

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. The source of pricing used to calculate the market value will be the values published in the financial section of the Wall Street Journal and, as necessary, a third-party agency with access to pricing for securities that are not listed in the Wall Street Journal.

XII. INVESTMENT POLICY ADOPTION

The City's Investment Policy shall be adopted by resolution of the City Council. It is the City's intent to comply with State laws and regulations. The City's Investment Policy shall be subject to revisions consistent with changing laws, regulations, and needs of the City. The Finance Committee and City Council shall review the City's Investment Policy annually. The City Council shall adopt a resolution stating that it has reviewed the policy and investment strategies annually, approving any changes or modifications.

