CITY OF FULSHEAR

REQUEST FOR PROPOSAL

BANK DEPOSITORY SERVICES

March 2012

INTRODUCTION

The City of Fulshear, Texas (the "City") is seeking applications from eligible financial institutions to be the Depository (the "Bank") for certain public funds of the City.

The philosophy incorporated into this Request for Proposal (the "RFP") is to solicit comparable market rates to be paid on short-term investments of funds and to pay agreed fees for all services required by the City and provided by the Bank. The proposal should be viewed as if the City intends to invest funds elsewhere to maximize interest income in instruments issued by pools or groups investing public funds. An example of such a pool that may be used is "TexPool". The Bank should understand that the depository relationship that is sought is one that will permit the rapid transfer of funds from the Bank into such a pool or pooling vehicle as the Finance Director of the City may decide is reasonable and appropriate; however, the Bank shall be given the option of bidding a rate of interest or return on all investments.

The RFP is intended to serve as the proposal form for the Depository Contract. There are several blanks to fill in and questions to be answered. The Depository Contract, which will be prepared by the City Attorney of the City, will be based on the Bank's response to the RFP. In order to receive City consideration, the Bank must state all points and attach all requested materials to its reply. Attachments are appropriate to answer some or all of the enclosed questions. Knowledge of all applicable law, as well as a response to this RFP, is the responsibility of the Bank. In addition, the City will not reimburse the Bank for costs incurred of any kind including the cost of preparing or submitting a proposal. The City desires to enter into a contract that will maximize the City's interests. Any banking institution should determine the merit of the contract to the institution, a matter upon which the City cannot offer an opinion or any comment.

The contract period will be two (2) years beginning May 1, 2012 and ending April 30, 2014, with an option to extend the contract for one (1) additional year if mutually agreeable by both the Bank and the City. In addition, either party upon ninety (90) days written notice may cancel this contract.

At the outset, the City wishes to communicate the primary objectives of the Depository Contract, an important component of the overall treasury and debt management program of the City.

The City seeks a bank that is both capable of providing banking services and will be attentive to the City's money matters in order to maximize the total dollars earned by the City on any invested funds so as to provide prudent and effective custodianship of the taxpayers' financial resources and maintain a good working relationship with the City.

The City has designated the Finance Director as the contact for the bidding process. The Finance Director and other necessary City personnel stand ready to answer such questions as shall be necessary for a bank to submit a proposal in accordance with the RFP.

Questions and/or comments regarding this RFP may be addressed to:

Kristina Brashear
Finance Director
P.O. Box 279
Fulshear, TX 77441
Phone (281) 346-1796 Fax (281) 346-2556
kbrashear@fulsheartexas.gov

CALENDAR OF EVENTS

DATE	DESCRIPTION OF EVENTS
March 25, 2012	Advertise Bank Depository Notice in local newspaper
April 4, 2012	Proposals to be received by 5:00pm at City Hall, 30603 FM 1093 B.O. Box 279, Fulshear, Texas
April 5 -9, 2012	Review recommendation with the Finance Committee
April 17, 2012 7:00pm	Selection of Bank Depository 30603 FM 1093 Rd. Fulshear, Texas 77441
May 01, 2012	Begin New Depository Contract Period

CRITERIA FOR EVALUATION

The Finance Director and the City Administrator of the City of Fulshear will prudently review the submitted proposals. The recommendation will be based on the proposal determined to be the best on behalf of the City and the taxpayers. The following areas will be considered in the evaluation of the proposals:

a. Operational Requirements (20%)
   - Understanding of the needs and operation requirements of the City
   - Bank and Branch Locations
   - Scope of services offered including degree of automation

b. Firm/Assigned Representative Experience (20%)
   - The experience, resources, and qualifications of the financial institution and individuals assigned to this account
   - Relevant experience managing similar account relationships with public institutions and agency clients

c. Financial Strength (10%)
   - Financial strength of proposing institution
   - Adequacy of financial controls and protection against loss

d. Scope of Additional Services Offered (10%)

e. Transition (10%)
   - Quality and scope of conversion/implementation plan
   - The value of any new product or service suggestions or other new ideas and enhancements

f. Compliance with the requirements of this RFP and quality of proposal (5%)

g. Fees (25%)
   - Proposed fees and compensation (Although fees and compensation will be an important factor in the evaluation of proposals, the City is not required to choose the lowest Proposer)

MINIMUM QUALIFICATIONS FOR SUBMITTING A PROPOSAL

In response to this Request for Proposal, the proposer acknowledges and understands that the following conditions must be met at the time services are provided to the City:

a. Federal or Texas Chartered Bank or other institution lawfully authorized to conduct business in the state of Texas.

b. Approved Collateral: A bank submitting a proposal must have identifiable collateral which meets the requirements of Texas law for public depositories and which is sufficient to cover the City's deposits at all times. The City will, to the extent permitted by law, consider the use of surety bonds as collateral. Collateral will be maintained in an independent third party bank approved by the City or in a joint safekeeping account at the Dallas Federal Reserve Bank.

c. Adequate Size to Provide Service: A bank submitting a proposal must have adequate organization, facilities, equipment and personnel to provide prompt and efficient service to the City.

d. City Liaison: A bank submitting a proposal must assign a senior level bank management person as liaison with the City's Finance Department.

e. City Employee Check Cashing Privileges: A bank submitting a proposal must agree to cash without charge to the City or its employees all of the City of Fulshear employee payroll checks drawn on its bank after proper identification is presented by the employees, regardless of whether or not the employee has an account with the bank.

f. Direct Deposit for City of Fulshear Employees: A bank must have the capability to provide direct deposit service for the City of Fulshear payroll account.

g. On-line banking capabilities.

As per Local Government Code 105.031 (Qualification of Depository)

(a) The bank or savings association, to qualify as a municipal depository, must, not later than **five** days before the commencement of the term of the depository services contract, provide security for the municipal funds to be deposited in accordance with the terms of the depository services contract.

(b) Chapter 2257, Government Code governs the type, level, substitution, possession, release, and method of valuation of the security necessary to secure the deposit of municipal funds.

BANK QUESTIONAIRE

The Bank is requested to answer the following questions in detail on an attached sheet.

A. QUALIFICATIONS AND EXPERIENCE

1. Provide a general overview and brief history of your organization, including parent and/or subsidiary companies and the number of employees.

2. Does the bank have a deposit-taking branch in Fulshear, Texas?

3. Provide the address of the office locations(s) that will service the account.

4. Describe the experience of the financial institution in providing similar services for other governmental agencies.

5. Provide ratings for the bank and/or bank holding company from at least two of the following agencies: Standard & Poor's, Moody's, Thomson BankWatch, Sheshunoff, or Lace. If the Offeror is not rated by two of these rating organizations, provide other evidence of the institution's credit quality.

6. Include a copy of the most recent audited annual financial statement and the latest 10-K report with the proposal.

7. Provide the bank's Community Reinvestment Act (CRA) rating.

8. Provide a list of the bank's holidays.

B. PERSONNEL (All Proposers should respond to this section)

1. Provide the name, title, address, phone number, fax number and email address of the primary contact person(s) assigned to this account.

2. Provide biographical information on the individuals that will be directly involved in the management of the City of Fulshear's accounts.

   a. Describe the experience of these employees in working with state and local governments and other public agencies. For each individual, show the number of years of experience in this field and the number of years with your firm.
   b. Describe the proposed role of each with regard to the City of Fulshear's account.

3. Will a specific customer service representative or a customer service department be assigned to handle day-to-day transactions for the City of Fulshear?

   a. Describe the responsibilities of the customer service personnel, including the chain of command for problem resolutions.

b. Is local customer service support available at the bank's local branches?

C. REFERENCES

1. Provide five references (public agency references in the State of Texas, if possible), including client name, contact person, address, phone number, services provided, and the length of time your bank has worked for the entity.

2. How many public sector clients in Texas have terminated services in the last three years? Please provide client name, contact person, address, phone number, services provided, and the length of time your bank has worked for the entity.

D. BANKING SERVICES

1. Deposit Processing

   a. Provide a map showing the location of the bank's branches nearest Fulshear.
   b. Are night drop, vault, remote and branch service options available? Is pricing different for utilizing these different deposit options?
   c. What is the ledger cutoff time for deposits?
   d. If needed, what location(s) are available for an armored car to deposit funds for processing?
   e. How are deposits credited? Are items immediately verified? If provision credit is given, when does verification take place?
   f. Can the bank provide a detailed return item transmission to the City of Fulshear? Can this report identify the payer's name, depositing location and they type of item being returned?
   g. Describe the bank's ability to process checks by Remote Deposit Capture?
      (1) Does the City of Fulshear have to buy or lease equipment to use Remote Deposit Capture?
      (2) Compared to a 'traditional' branch deposit, does the bank impose additional responsibility or expose the City of Fulshear to additional liability for fraudulent items if checks are processed by Remote Deposit Capture. If so, please describe.

2. Availability of Deposits

   a. Does the bank give immediate availability for on-us items?
   b. Will the same schedule apply for a retail lockbox? If not, describe the differences.

3. Positive Pay

   a. Describe the bank's ability to provide Positive Pay services.
   b. What type of medium (i.e. magnetic tape, data transmission) can the bank accept?
   c. What is the deadline for the transmission of check issuance files to the bank?

d. How will the City of Fulshear be notified of rejected items? What time will the City of Fulshear receive the information on rejected items? How much time will the City of Fulshear have to review discrepancies and notify the bank to reject?
e. Does the bank offer Payee Positive Pay? Is the City of Fulshear required to use Payee Positive Pay if it elects to use the bank's Positive Pay Services?
f. Is Teller Positive Pay available?

4. Controlled Disbursement

a. Specify the number of corporate/business customers using controlled disbursement.
b. What are the average daily total dollars and total items presented to the bank's controlled disbursement site?
c. Where will the point or points for the City of Fulshear proposed disbursement account be located? What is its relationship to your organization: main office, branch, affiliate, correspondent, service bureau, other? How are the points classified – city, Regional Check Processing Center (RCPC) or county?
d. At what time will the City of Fulshear be notified of presentment items? Specify 1st and 2nd presentment times.
e. Is automatic funding of the controlled disbursement account from a main account possible?

5. Overdraft Charges

a. What are the fees and interest charges associated with overdrafts? How are these charges calculated?
b. Is there a fee per check or per occurrence when there is an overdraft?
c. Is there a daily cap on fees?

6. Stop Payments

a. How are stop payment orders placed? Can stop payments be placed on-line?
b. Are stop payment requests effective immediately? If not, for a check that is expected to clear today, what is the latest time for a stop payment request to be placed and be effective?
c. How long will the stop payment remain in effect?
d. Can stop payments be automatically renewed? If so, for how long?

7. ACH Processing

a. What are the different ACH file transmissions options available?
b. What are the fees associated with initiating an ACH transaction?
c. What are the transmission deadlines for ACH files? When does the bank need the file from the City of Fulshear and when are funds debited from City of Fulshear's accounts?
d. How are returned and rejected ACH transactions handled? What information does the bank provide on a timely basis in identifying returned and rejected ACH transmissions?
e. Does the bank offer ACH Positive pay (ability to make pay/no pay decisions on unidentified ACH transactions)?

8. Wire Processing

   a. Describe the process of initiating wire transfers.
   b. What are the fees associated with initiating a wire transaction?
   c. If wire transfers can be initiated on-line, describe the system's security features. Can varying degrees of authorization be set on (i.e. multiple authorizers, maximum dollar amounts, etc.)?
   d. Does the bank offer its customers dual control release options (secondary approval levels) for electronically initiated transfers? If so, describe.
   e. What is the cut-off time for same-day wire transfers?

9. Balance Reporting

   a. Describe the reports that will be available to the City of Fulshear through the bank's balance reporting system. Include sample reports.
   b. How will the City of Fulshear access the reporting system (i.e. dial up, Internet). Is specific software required to communicate with the bank's system? Is there an extra charge for this software?
   c. What current day reporting is available through the reporting system?
   d. Does the bank's deposit reporting system report electronic transactions (e.g. ACH, wire) as well as paper documents?
   e. What time (assuming Controlled Disbursement is not used) will the bank be able to report the total amount of the day's check disbursements to the City of Fulshear?
   f. Can account activity be downloaded by the City of Fulshear? What formats are available?
   g. Can reports be customized? Is there an additional charge?
   h. How many business days of balance history are stored on the reporting system for current and previous data reporting and available for customer access?
   i. How long are electronic images stored on the reporting system and available for customer access?

10. Investment Sweep

   a. What short-term investment vehicle(s) does the bank propose to use for the overnight sweep of the City of Fulshear's demand deposit accounts? Does a reserve requirement apply for the proposed overnight sweep option?
   b. What time of day is the cash sweep deadline? Is it end-of-day or next-day sweep?
   c. Provide return history for the twenty-four month period from January 2009 through December 2010.
   d. If funds will be held in a demand deposit account, where will pledged collateral be held? What collateral reports are available? How frequently will the bank provide these reports? Please provide a sample.
   e. If the bank is proposing a money market mutual fund, provide a copy of the current prospectus and, if multiple classes are offered, identify the class of shares that is being proposed. What applicable fee (if any) applies for funds swept into this investment vehicle? How is the fee calculated?

11. Employee Banking

a. Will the bank cash the City of Fulshear's payroll checks without charge, regardless of the bank on which the check is drawn? If not, what is the charge? Is a check cashing agreement required? If yes, include a copy.
b. Describe in detail the package of employee banking services that you propose to provide to the City of Fulshear's employees. Must employees use direct deposit to obtain these services?

12. Earning Credit Rates

a. Does the City of Fulshear have the option of compensating your bank on either a fee or balance basis? Is the price the same for either option? If not, what is the difference?
b. How is your bank's earnings credit determined, adjusted, and applied? Please include in the explanation the impact of the bank's reserve requirement, the formula for converting service charges to balance requirements and a listing of the bank's earnings credits and reserve requirements on a monthly basis from January 2010 through December 2011.
c. What time frame does your bank use when reviewing balances for deficiency or excess (e.g. rolling 12 month average, calendar quarter, calendar year, etc.)?

E. INVESTMENT CUSTODY SERVICES

1. Confirm that the bank will provide custody through the bank's trust department.

2. List the total number and market value of custodian accounts as of December 31 for the following years: 2009, 2010 and 2011.

3. Describe your organization's commitment to providing custody services.

4. Provide a listing of cut off times for notification of securities transactions. Please specify if the cut off times vary for different types of securities.

5. When does the bank credit interest and dividends?

6. Are security transactions settled on an actual or contractual basis? How will the bank compensate the City of Fulshear for fail float?

7. Describe any sub-custodial arrangements that would be used for fixed-income securities belonging to the City of Fulshear. Include a description of the arrangements used for the delivery of physical securities.

8. Reporting

   a. Describe the frequency and format of custody reports that the bank would provide to the City of Fulshear. Include sample reports.
   b. Does the bank provide information to clients through an on-line inquiry/reporting service? Are customized reports available at no additional charge through this on-line inquiry/reporting service?
   c. What is the lag time between trade execution, availability of on-line transaction data, and the settlement of the transaction to the bank's reporting system?

9. What short-term investment vehicle(s) does the bank propose to use for the overnight sweep in the City of Fulshear's custody accounts? Does a reserve requirement apply for the proposed overnight sweep option? What time of day is the cash sweep deadline? Is it end-of-day or next-day sweep?

   a. Provide return history for the twenty-four month period from January 2010 through December 2011.
   b. If the bank is proposing a mutual fund, provide a copy of the prospectus and, if multiple classes are offered, identify the class of shares that is being proposed.
   c. Provide a complete listing of associated fees and/or administrative charges.
   d. Is the sweep option automated? If not, what process does the bank use to ensure cash balances are invested?

F. MERCHANT CARD PROCESSING

1. Describe the bank's bankcard and debit card processing capabilities. Does the bank act as its own processor or does it use the services of a third-party processor? If a third-party processor is used, for how long has the bank had a relationship with this institution?

2. Provide information on the daily volume processed by the processor for all clients.

3. Is the proposed merchant card processing system fully Payment Card Industry Data Security Standard (PCI DSS) complaint?

4. Can the bank process transactions using the City of Fulshear's existing equipment?

5. How is the applicable interchange fee determined for each transaction? By how much does the bank's fee exceed Visa/MasterCard's stated interchange assessment?

6. Can the processing system accommodate Internet and telephone transactions? If yes, provide the following additional information.

a. Does the bank/processor have its own secure payment gateway or does it use a third party secure payment gateway? If a third-party is used, provide information on that service provider.
b. Describe the system's capabilities and outline the measures employed to protect sensitive information.
c. What additional fees are associated with telephone and on-line transactions? May these fees be passed on to the customer? Describe any limitations or requirements related to the payment of fees by the customer?

7. What authorization methods does the bank support and which does the bank recommend? List and describe alternatives.

8. What are the procedures to reverse an incorrect authorization?

9. Provide a funds availability schedule by card type. Is it negotiable?

10. Is settlement made by ACH or Fedwire? Is there an additional charge for Fedwire? When will funds be available to the City of Fulshear if settlement is made to another financial institution?

11. Will you provide a designated contact person or a department to help the City of Fulshear manage chargebacks?

12. Describe the bank's on-line capabilities to review merchant card transactions. Is transaction information available by terminal or merchant identification number?

13. How many City of Fulshear employees will the bank permit to access the on-line reporting system with a unique log on identification?

14. Provide sample reports of merchant card activity.

15. What differentiates your bank's service from that of other providers?

G. IMPLEMENTATION/CONVERSION

1. Provide a conversion plan to transition/implement the City of Fulshear's use of banking services described above.

2. Indicate the bank's plans for educating and training the City of Fulshear employees in the use of your bank's systems.

H. NEW SERVICES & IDEAS

1. Describe any new services or ideas that will enhance the City of Fulshear's utilization of banking services described above.

2. Describe the bank's approach to keeping customers informed of new products and services that become available.

3. Please provide any additional information that your bank believes to be pertinent but not specifically requested elsewhere in the RFP.

ACCOUNT ACTIVITES

Bank statements should be rendered within **five (5)** working days after the close of the calendar month. The statements must include deposits made on the last day of the period. The accompanying canceled checks must be arranged in numerical order.

The City proposes to pay for all account services provided by the Bank by keeping a high enough balance to earn enough interest to cover the cost of those services. The method expected to be used for the payment of these services is the direct payment method. If the City pays for account services, the City will require an account analysis each month which will clearly show volume counts, fees charged and total price for servicing each account. The account analysis should also reflect average ledger balances, average uncollected funds, average collected balances, interest rates and the amount of interest paid. The City requests an account analysis even if the Bank proposes the services at no cost. Please submit a pro-forma monthly account analysis statement that will be provided to the City as outlined in Appendix A. If the account analysis procedure for the proposing Bank is different from this request, please attach a written explanation and example with the proposal.

COLLECTED FUNDS POLICY REQUIRED BY THE CITY OF FULSHEAR

The City must receive same-day credit for all funds deposited by 2:00 p.m. The funds must be available for any transactions, including investments that may be executed. If not invested, the funds should earn interest at the rate being paid by the bank submitting a proposal in an amount not less than the effective federal funds rate for the previous business day. The rate must be adjusted daily in accordance with such daily changes as may occur. Any response to this RFP should set out the Bank's agreement with the City's request as to minimum payments for invested funds or state any variance there from by clearly showing either plus or minus "basis points" or points expressed in 100ths of one percentage point, e.g., 7.01% equals seven percent plus one basis point.

ADDITIONAL ACCOUNT ACITIVITY REQUIREMENTS

(Security Pledging Requirements)

The City requests that the Bank provide a daily account transaction history or ending daily ledger balances, via on-line access or through facsimile in the event the system is down, for cash management purposes. Please list any charges, if any, in Appendix A that would be applicable for this service.

As additional security (in excess of FDIC coverage) for the funds of the City, the Bank shall, in accordance with applicable law, pledge to the City securities that are approved by the City equal to the largest total balances the City maintains in the Bank. Certificates of Deposit and other evidences of deposit shall be collateralized at one hundred two percent (102%) of market or par, whichever is lower, for other securities. The securities so pledged, the amounts thereof and the time for pledging same must satisfy the requirements of V.T.C.A. Government Code, Section 2256.001, et. seq., as amended. The City reserves the right at any time to reject any securities and the Bank agrees and understands that the City shall have the exclusive right to approve any offered securities. The Finance Director and the City Administrator shall have final authority to approve or reject any pledged securities and to determine the adequacy of the securities pledged.

The Bank shall provide the City a report of securities pledged at the end of each month or at any time requested by the City Administrator, the Finance Director or other designated representative of the City. This report shall reflect the following information:

a. Name of Security;Type/Description/CUSIP number;

b. Par value;

c. Market value;

d. Maturity Date; and

e. Moody's or Standard & Poor's Rating (if applicable).

The securities pledged shall be held in safekeeping by a separate and different bank, approved by the City, which shall be other than the Depository Bank. The securities may be held in the Federal Reserve Bank in an account held jointly in the name of the Bank and the City. The proposed Safekeeping Contract shall provide that the Safekeeping Bank holding the securities shall surrender the same to the City if the City notifies the bank holding the securities of default in the contract between the Bank and the City. In addition, the Safekeeping Contract shall provide that the Safekeeping Bank shall not require any further notice or authorization from the Bank prior to releasing the pledged securities in safekeeping. The Safekeeping Contract should further provide that such surrender shall occur upon demand of the City and without either notice or consent of the Depository Bank. The City Attorney of the City shall prepare the Safekeeping Contract, which shall be signed and approved by the City, the Bank and the Safekeeping Bank prior to the implementation of any contract between the City and the Bank. The original copy of any security receipts shall be filed with the Director of Finance of the City (See Appendix A).

The safekeeping contract should meet the requirements set forth in the Financial Institutions Reform Recover and Enforcement Act of 1989 (FIRREA): 1) must be in writing; 2) approved by depository institution Board of Directors or Loan Committee, and reflected in the minutes; 3) official record of institution continuously since executed.

The City must approve all securities pledged. Any substitutions of the securities or reductions in the total amount pledged may be made by and with proper written authorization and approval of the Director of Finance of the City and the City Administrator or his designee, except as provided below. All securities pledged shall be United States Government Notes or direct obligations of the United States. In the case of a reduction in securities, the Bank must maintain or have available sufficient collateral when needed to meet normal City balance increases throughout the year.

The City shall endeavor to notify the Bank in advance of any anticipated significant changes in the account balances in order to allow additional securities to be pledged or to have excess securities released.

INVESTMENT ACTIVITIES FOR TERMS GREATER THAN 30 DAYS

The City advises any banking institutions submitting a proposal in response to this RFP that it intends to invest its time deposits or funds designated for possible expenditures at least 30 days subsequent to the date of deposit in other institutions or through the use of other investment vehicles, including but not limited to "TexPool", and as such, the Bank should submit a proposal not based upon any reliance of its selection to be the depository of time deposits of the City. The City does, however, advise all bidders that it will consider any proposal to act as depository of its time deposits and shall make a decision as to the best interests of the City to achieve maximization of returns on time deposits and investments. Should the City choose to invest in fully collateralized Certificates of Deposit (CD's) in excess of $100,000 at the Bank, interest on all CD's purchased from the Bank shall be computed on an actual daily basis (365 days). Accrued interest should be paid on the last day of each month or the maturity date, whichever is earlier. Interest calculations will include the first day in the investment period, but will not include the day of maturity. Payment will be made by crediting the appropriate bank account or paying in accordance with the instructions of the City.

The City requires that even though it has stated its intention to invest most of its available funds in other institutions and utilizing other investment vehicles, as a part of this proposal, the City requires any bank submitting a proposal to also agree to accept time deposits from the City for investment purposes as the City may choose and direct during the term of this Contract. Please complete Appendix C to provide the maximum dollar amount of investments and the minimum and maximum maturity length (in months) that the Bank is willing to accept.

Subject to government regulations, the following is a schedule of proposals for single maturity time deposits or Certificates of Deposit to be completed by the Bank. (NOTE: If the proposing bank shall elect not to provide the investment service option, then the proposal shall be submitted with the notation "N/A". If, however, the bank submitting a proposal shall have previously established a business practice, procedure or condition which limits or restricts its ability to provide time investment services, then please attach to this proposal a statement and full explanation of such business practice, procedure or condition which limits or restricts its ability to provide time investment services.)

CERTIFCATES OF DEPOSIT- $100,000 OR MORE FOR TERMS GREATER THAN 30 DAYS

MATURITY	BASE	ADJUSTMENT TO BASE
30 - 59 days	_____	Plus/minus _____basis points
60 - 89 days	_____	Plus/minus _____basis points
90 - 119 days	_____	Plus/minus _____basis points
120 - 149 days	_____	Plus/minus _____basis points
150 - 179 days	_____	Plus/minus _____basis points
180 - 209 days	_____	Plus/minus _____basis points
210 - 239 days	_____	Plus/minus _____basis points
240 - 269 days	_____	Plus/minus _____basis points
270 - 299 days	_____	Plus/minus _____basis points
300 - 329 days	_____	Plus/minus _____basis points
330 - 365 days	_____	Plus/minus _____basis points
Over 365 days (1)	_____	Plus/minus _____basis points

(1) It is not anticipated that any maturity will exceed one (1) year (365 days).

The proposals will be evaluated evenly weighing each investment bracket. The Bank Agrees to honor and continue any investments made during the term of the Depository Contract that will mature after the expiration date of the Depository Contract at the same rate established before the expiration of the Depository Contract.

CITY DEPOSITORY RULES AND REGULATIONS

The City has adopted ordinances and/or policies and procedures regarding investment transactions and investment philosophy. The ordinances and/or policies have been reviewed and approved by City Council and may be changed, modified, repealed or otherwise reviewed during the term of this Contract with or without notice to the Bank. The selected Depository Bank is put on notice that it should request a copy of such rules and regulations and that the same may be changed, modified, or repealed during the term of this Contract with or without notice to the Bank.

It is the City's desire that rate quotes received for Certificates of Deposit must at least equal or exceed the bond equivalent yield for other allowable investment instruments (For example: U.S. Government securities) with a similar maturity. As stated previously, the City reserves the right to invest directly into other allowable investment instruments.

In the event the City elects to invest directly or sell other allowable investment instruments, the City may request that the Bank execute the order and effect the transaction. The City will desire for the Bank to show that at least three (3) telephone bids were taken and a summary will be provided showing rates, bidders, time of bid, and any other information that will provide documentation of the bidding process that may be reviewed by the City and its independent auditors. Should this investment alternative be selected, list the charges, if any, in Appendix A that would be made to the City's account for executing the order or for safekeeping the securities.

The City reserves the right to use other institutions, such as a broker/dealer or public funds investment pool, in order to execute the purchase or sale of other allowable investment instruments, in accordance with the City's investment ordinances and policies that currently exist as may be later amended or appealed.

OVERDRAFTS

The City does not intend to have a net overdraft position throughout the course of this Contract. An overdraft is defined as a negative demand balance, less reserve requirements, in the City accounts collectively, not by individual account.

In the event a check or checks are presented for payment on any account or accounts of the City where there shall be insufficient funds for the purpose of paying checks, then the Bank agrees to promptly notify the Director of Finance of the City or the City Administrator, by telephone or other means, of the existence of the overdraft situation and to provide the Director of Finance or City Administrator a period not exceeding one (1) business day to respond to such overdraft. The Bank agrees to honor checks presented for payment in the event there is insufficient funds in the account or accounts.

a. The maximum number of days of an overdraft that will be allowed is _____?

b. The maximum amount of overdraft that will be allowed is $_____?

c. The interest rate will be _____ per annum computed on an actual day basis?

OTHER STIPULATIONS

a. The Bank will notify the City in writing within ten (10) days of any changes in Federal or State regulations or laws that would thereafter affect this Contract. The Bank shall also notify the City of any services that become available to the City throughout the Contract period that in the view of the Bank would be beneficial to the City. The City also notifies any banking institution submitting a proposal that it intends to implement such new practices and procedures that it finds beneficial and appropriate.

b. Notification of incoming wire or other electronic transfers shall be made within one (1) hour of the transaction and a duplicate copy furnished to the City within twenty-four (24) hours.

c. The Bank, as part of this proposal, agrees that all records relating to the City's accounts shall be open to review by either City staff members or City-appointed independent auditors during normal business hours.

d. In order to qualify as the Depository Bank for the City, the bidder must certify in writing (signed by an authorized officer) that the bidder institution meets or exceeds the following ratios. In addition, the required certification must be reaffirmed in writing the first day of each quarter in similar manner that it maintains or exceeds the stated ratio. Should a selected Depository Bank fail to either re-certify quarterly or fall below the stated levels, the City may terminate this Depository Contract and select another Depository Bank in accordance with State laws. The required certification shall be in the form of an affidavit and contain an attestation by an authorized officer of the Bank.

   Capital ratio of at least six percent (6%), defined as primary capital divided by total assets (expressed as a percentage); and

e. The Bank will submit a copy of each year's audited annual financial statements and the subsequent quarterly supplements to the City as soon as available.

f. Should the Bank fail, close or be forced into reorganization during the term of this contract, the City reserves the right to cancel the contract and re-bid for depository services.

g. The City reserves the right to award a contract for demand deposits and depository services separately. The City desires to award the contract for demand deposits and depository services to one bank, but may award the contract for time deposits (investments) to more than one bank, including the Depository Bank.

h. Deposits of the City are made daily by the Fulshear Finance Department, therefore the proximity of the financial institution's nearest branch will be taken into consideration in the evaluation of the proposals.

PROPOSAL INSTRUCTIONS/REQUIREMENTS

Sealed proposals in duplicate clearly marked "Application for Banking Depository Services" should be delivered to the following person by 5:00 p.m., Wednesday, April 4, 2012.

City of Fulshear
Kristina Brashear
Finance Director
P.O. Box 279
Fulshear, TX 77441

NO PROPOSAL WILL BE RECEIVED AFTER 3:00 P.M.

The proposing bank should use this RF form as the OFFICIAL PROPOSAL FORM to submit rates and to answer questions. Any alterations, changes or deletions to this RFP may be grounds for the City to disregard and reject the RFP and the proposal. Any deviations from the stipulations in this RFP must also be noted in the proposal or attachments.

The City reserves the right to request additional information or to meet with representatives from proposing organizations to discuss points in the proposal before and after submission, any and all of which may be used in forming a recommendation.

The City reserves the right to reject any and all proposals and to waive any minor technicalities in the proposal.

Any amendments to this RFP after receipt by bidders will be made only by written documentation to all proposing institutions.

The Bank states that it is an authorized financial institution, i.e., Bank, Credit Union, Savings and Loan, as defined by V.T.C.A., Local Government Code, Sec. 105.001, et. seq., as amended.

The Bank states that it is an institution having its principal place of business in the State of Texas.

The City or the Bank may require a review meeting at least once every six months to evaluate the working relationship between the City and the Bank. The objective will be to address any problems and to seek a responsible solution.

The Fulshear City Council will make the final appointment of the Bank. The bidder will be required to enter into a Depository Contract, which incorporates all of the obligatory points in this RFP.

This RFP has been duly advertised and is being offered for consideration to financial institutions inside and outside the corporate city limits of the City, as permitted by State law.

Upon being awarded this Contract, the Bank shall designate an individual to be the official contact person for all correspondence. The City shall do the same. Both the City and the Bank shall be responsible for training and communicating the terms of this Contract to their respective employees.

This proposal is submitted by the following person who is duly authorized to act on behalf of the Bank:

_____

Print Officer's Name and Title

_____

Officer's Signature

_____

Name of Bank

_____

Address City, State, Zip Code

_____

Area Code and Phone Number Area Code and FAX Number

APPENDIX A

BANK ACCOUNT ACTIVITY

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 lines as required.

SERVICE UNIT	UNIT CHARGE	COST OF SERVICE
Account Maintenance	Per month	
Daily Balance Reporting	Per month	
Credits Posted	Per transaction	
Debits Posted	Per transaction	
Encoding Charge	Per transaction	
ACH Processing	Per transaction	
Collection Items:		
Incoming (drafts, etc.)	Per transaction	
Outgoing (customer)	Per transaction	
Outgoing (non customer)	Per transaction	
Wire Transfers:		
Incoming	Per transaction	
Outgoing	Per transaction	
Return Items	Per transaction	
Rolled Coin		
Strapped Currency		
FDIC Insurance (based on		
ledger balance per $1,000)		
Stop Payment	Per transaction	
Money Orders	Per transaction	
Cashier's Check	Per transaction	
Safe Deposit Box (26 x 16)	Per month	
Research	Per transaction	
Account Transfers:		
Phone	Per transaction	
Automatic	Per transaction	
Account Activity Report:		
Printout	Per transaction	
Special Statement Request	Per transaction	
Photocopies	Per transaction	
OTHER		

APPENDIX B

MAXIMUM/MINIMUM INVESTMENTS

1. What is the maximum maturity length of an individual investment instrument the Bank is willing to accept?

   _____(days)

2. What is the minimum maturity length of an individual investment instrument the Bank is willing to accept?

   _____(days)

3. What is the maximum amount of an individual investment instrument the Bank is willing to accept?

   $_____(dollars)

4. What is the minimum amount of an individual investment instrument the Bank is willing to accept?

   $_____(dollars)

5. What is the total maximum dollar amount of investments (Certificates of Deposit) the Bank is willing to accept?

   $_____(dollars)

6. What is the total maximum dollar amount of pledged collateral securities the Bank is willing to pledge?

   $_____(dollars)

APPENDIX C

ADOPTED INVESTMENT POLICY

City of Fulshear

2012/2013 Investment Policy

PREFACE

It is the policy of the City of Fulshear (the "City") that after allowing for the anticipated cash flow requirements of the City and giving due consideration to the safety and risks of investments, all available funds shall be invested in conformance with these legal and administrative guidelines to obtain a market rate of return.

Effective cash management is recognized as essential to good fiscal management. An active cash management and investment policy will be pursued to take advantage of investment interest as a viable and material source of revenue for City funds. The City's portfolio shall be designed and managed in a manner responsive to the public trust and shall be invested in conformance with State and Federal Regulations, applicable Bond Resolution requirements, and adopted Investment Policy. The City will invest public funds in a manner which will provide the maximum security and a market rate of return while meeting the daily cash flow demands of the City.

The City is required under the Public Funds Investment Act (Chapter 2256 of the Texas Government Code) to adopt a formal written Investment Policy for the investment of public funds. These policies serve to satisfy the statutory requirement (specifically the Public Funds Investment Act, Chapter 2256 of the Texas Government Code [the Act]) to define, adopt and review a formal investment strategy and policy.

CITY OF FULSHEAR INVESTMENT POLICY

TABLE OF CONTENTS

SECTION NO. SECTION TITLE PAGE #

1. Purpose
2. Investment Strategy
3. Scope
4. Investment Objectives
5. Investment Responsibility
6. Authorized Investments
7. Diversification
8. Authorized Financial Dealers and Institutions
9. Delivery Versus Payment
10. Safekeeping and Collateralization
11. Internal Control
12. Performance
13. Reporting
14. Investment Policy Adoption and Amendment

Attachments:

A. Glossary of Terms
B. Certification of Business Organization Sample Form

1. **PURPOSE.** The purpose of this investment policy (the "Policy") is to set forth specific investment policy and strategy guidelines for the City in order to achieve the goals of safety, liquidity, achieving a market rate of return and maintaining public trust for all investment activities. The City Council of the City shall review the investment strategy and policy at least annually, and the City Council shall annually approve the Investment Policy revisions, if any, by formal resolution.

2. **INVESTMENT STRATEGY.** The City maintains a comprehensive and proactive cash management program that is designed to monitor and control all City funds to ensure maximum utilization and yield a market rate of return. The basic and underlying strategy of this program is that all of the City's funds are earning interest. It is the responsibility and obligation of the City to maintain a flexible approach and be prepared to modify the investment strategy as market conditions dictate. The investment strategy described is predicated on conditions as now exist and are subject to change. The investment strategy emphasizes low credit risk, diversification, and the management of maturities. The strategy also considers the expertise and time constraints of the investment officers. The allowable investment instruments as defined in Section 6 of this Policy reflect the avoidance of credit risk. Diversification refers to dividing investments among a variety of securities offering independent returns. This strategy uses local government investment pools to achieve diversification. The management of maturities refers to structuring the maturity dates of the direct investments so that, while funds are initially invested for a longer period of time, some investments mature as cash needs require.

2.1. **The primary investment strategy and objectives** of the City as specified in this Policy (See Section 4.) are listed below, in their order of importance:

Safety and preservation of principal;
Maintenance of sufficient liquidity to meet operating needs;
Achieve a market rate of return on the investment portfolio; and
Seek at all times to maintain public trust by adhering to the above stated objectives.

2.2. **The list of investments authorized** by this Policy intentionally excludes some investments allowed by state law. The restrictions limit possible credit risk and provide the maximum measure of safety. Within the investment objectives, the investment strategy is to utilize authorized investments for maximum advantage to the City. To increase the interest earnings for funds identified as being available for investment over longer periods of time, based upon a cash requirement projection, the City will consider the following strategies:

2.2.1. **Strategy No. 1.** Diversifying the City's investment opportunities through the use of local government investment pools and money market mutual funds as authorized by the City Council. An investment pool is an entity created to invest public funds jointly on behalf of its participants and whose investment objectives in order of priority match those objectives of the City. Funds are usually available from investment pools on a same-day basis, meaning the pools have a high degree of liquidity. Because of the size and expertise of their staff, investment pools are able to prudently invest in a variety of the investment types allowed by state law. In this manner, investment pools achieve diversification. The strategy of the City calls for the use of investment pools as a primary source of diversification and supplemental source of liquidity. Funds that may be needed on a short-term basis but that are in excess of the amount maintained at the depository bank are available for deposit in investment pools.

2.2.2. **Strategy No. 2.** Building a ladder of Investment Policy authorized securities with staggered maturities for all or part of the longer-term investable funds. The benefits of this ladder approach include the following:

It is straight-forward and easily understood;
It represents a prudent diversification method;
All investments remain within the approved maturity horizon;
It will normally allow the City to capture a reasonable portion of the yield curve; and
It provides predictable cash flow with scheduled maturities and reinvestment opportunities

2.2.3. **Strategy No. 3.** Pursuant to the Public Funds Investment Act (Texas Government Code 2256.003), the City may, at its discretion, contract with an investment management firm registered under the Investment Advisors Act of 1940 (15 U.S.C. Section 80b-1 et seq.) and with the State Securities Board to provide for investment and non- discretionary management of its public funds or other funds under its control.

An appointed Investment Advisor shall act solely in an advisory and administrative capacity, within the guidelines of this Investment Policy. At no time shall the advisor take possession of securities or funds or otherwise be granted discretionary authority to transact business on behalf of the City. Any contract awarded by the City Council for investment advisory services may not exceed two years, with an option to extend by mutual consent of both parties.

Duties of the Investment Advisor contracted by the City shall abide by the Prudent Expert Rule, whereby investment advice shall, at all times, be given with the judgment and care, under circumstances then prevailing, which persons paid for their special prudence, discretion and intelligence in such matters exercise in the management of their client's affairs, not for speculation by the client or production of fee income by the advisor or broker, but for investment by the client with emphasis on the probable safety of the capital while considering the probable income to be derived.

2.2.4. **Strategy No. 4.** The City will maintain portfolio(s) which utilize four specific investment strategy considerations designed to address the unique characteristics of the fund group(s) represented in the portfolio(s):

2.2.4.1. Investment strategies for operating funds and pooled funds containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio that will experience minimal volatility during economic cycles through diversification by security type, maturity date and issuer. All security types, as authorized by this policy, are considered suitable investments for the operating and pooled funds.

2.2.4.2. Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date(s). These funds have predictable payment schedules. Therefore investment maturities shall not exceed the anticipated cash flow requirements.

2.2.4.3. Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund. Managing the Debt Service Reserve Fund's portfolio maturities to not exceed the call provisions of the bond issue will reduce the investment's market risk if the City's bonds are called and the reserve fund liquidated. No investment maturity shall exceed the final maturity of the bond issue.

2.2.4.4. Investment strategies for special projects and capital projects funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. Market conditions and arbitrage regulations will influence the investment of capital project funds. When market conditions allow, achieving a positive spread to applicable arbitrage yield is the desired objective, although at no time shall the anticipated expenditure schedule be exceeded in an attempt to increase yield.

2.2.5 **Strategy No. 5. Hold until Maturity** The strategy of the City is to maintain sufficient liquidity in its portfolio so that it does not need to sell a security prior to maturity. Should it become necessary to sell a security prior to maturity, where the sale proceeds are less than the current book value, the prior written consent of the Mayor must be obtained. Securities may be sold prior to maturity by the Investment Officer at or above their book value at any time, with the consent of the Mayor.

2.2.6. **Strategy No. 6. Pooling of Deposits and Investments.** All demand deposits of the City will be concentrated with one central depository. This procedure will maximize the City's ability to pool cash for investment purposes, and provide more manageable banking relationships. In addition, depositories not holding demand deposits of the City may be eligible to bid or submit proposals on City investments.

2.2.7. **Strategy No. 7. Depository Bank Relationships.** This Policy shall further seek to maintain good depository bank relationships while minimizing the cost of banking services. The City will seek to maintain a depository contract which will be managed to a level that minimizes the cost of the banking relationship to the City, while allowing the City to earn an appropriate return on idle demand deposits.

2.2.8. **Strategy No. 8. Single Pooled Fund Group**. A single strategy is specified, in accordance with the single pooled fund group as defined in this Policy. However, earnings from investments will be allocated on a pro-rata cash basis to the individual funds and used in a manner that will best service the interests of the City.

2.2.9. **Strategy No. 9. Maximizing Investible Cash Balances.** Procedures shall be established and implemented in order to maximize investible cash by decreasing the time between the actual collection and the deposit of receipts, and by the controlling of disbursements.

3. **SCOPE.** The Investment Policy shall govern the investment of all financial assets considered to be part of the City and includes the following funds or fund types: General Fund, Utility Fund, Debt Service Fund, Capital Projects Fund, Special Revenue Funds, and any other funds which have been contractually delegated to the City for management purposes. The City may add or delete funds as may be required by law, or for proper accounting procedures. This policy does not include funds governed by approved trust agreements, or assets administered for the benefit of the City by outside agencies under retirement or deferred compensation programs. Additionally, bond funds (including debt service and reserve funds) are governed by bond ordinances and are subject to the provisions of the Internal Revenue Code and applicable federal regulations governing the investment of bond proceeds.

4. **INVESTMENT OBJECTIVES.** Funds of the City shall be invested in accordance with all applicable Texas statutes, this Policy and any other approved, written administrative procedures. The four objectives of the City's investment activities shall be as follows (in the order of priority):

4.1. **Safety of Principal.** Safety of principal invested is the foremost objective in the investment decisions of the City. Each investment transaction shall seek to ensure the preservation of capital in the overall portfolio. The risk of loss shall be controlled by investing only in authorized securities as defined in this Policy, by qualifying the financial institutions with which the City will transact, and by portfolio diversification. Safety is defined as the undiminished return of the principal on the City's investments. All investment officers shall understand the suitability of investment to the financial requirements of the City.

4.2. **Liquidity**. The investment portfolio shall be managed to maintain liquidity to ensure that funds will be available to meet the City's cash flow requirements and by investing in securities with active secondary markets. Investments shall be structured in such a manner as will provide the liquidity necessary to pay obligations as they become due. A portion of the portfolio also may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds. A security may be liquidated prior to its stated maturity to meet unanticipated cash requirements, or to otherwise favorably adjust the City's portfolio, in accordance with Section 2.2.5 above.

4.3. **Market Rate-of-Return (Yield).** The City's investment portfolio shall be designed to optimize a market rate- of-return on investments consistent with risk constraints and cash flow requirements of the portfolio. The investment portfolio shall be managed in a manner which seeks to attain a market rate of return throughout budgetary and economic cycles. The City will not attempt to consistently attain an unrealistic above market rate-of return, as this objective will subject the overall portfolio to greater risk. Therefore, the City's rate of return objective is secondary to those of safety and liquidity. Rate of return (yield) is defined as the rate of annual income return on an investment, expressed as a percentage.

4.4. **Public Trust.** All participants in the City's investment program shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction which might involve a conflict of interest or otherwise impair public confidence in the City's ability to govern effectively. All officials of the City having either a direct or indirect role in the process of investing idle funds shall act responsibly as custodians of the public trust.

5. **INVESTMENT RESPONSIBILITY.** As provided in this policy, the daily operation and management of the City's investments are the responsibility of the following persons.

5.1. **Delegation of Authority.** The Mayor and the City Treasurer are authorized to deposit, withdraw, invest, transfer or manage in any other manner the funds of the City. Management responsibility for the investment program is hereby delegated to the Mayor and/or City Treasurer, who shall establish written procedures for the operation of the investment program, consistent with this Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. All persons involved in investment activities will be referred to in this Policy as "Investment Officials." No persons may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Mayor and City Treasurer. The City Treasurer shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate Investment Officials. The system of controls shall be designed to provide reasonable assurance that ensures the assets of the City are protected from loss, theft or misuse. 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.

The City Treasurer shall be designated as the primary Investment Officer for the City and shall be responsible for investment decisions and activities under the direction of the Mayor. The Mayor and a member of the City Council shall also be designated as an Investment Officer. Commitment of financial and staffing resources in order to maximize total return through active portfolio management shall be the responsibility of the City Council.

5.2. **Prudence.** The standard of prudence to be applied by the Investment Officer shall be the "prudent person" rule, which requires that each investment be judged on its own merits. All investments shall be made in a prudent manner. In determining whether the Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the following:

5.2.1. The investment of all funds over which the Investment Officer had responsibility rather than a consideration as to the prudence of a single investment; and

5.2.2. Whether the investment decision was consistent with the written investment Policy and procedures of the City.

5.3. **Due Diligence.** The Investment Officer acting in accordance with written policies and procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported in a timely manner and that appropriate action is taken to control adverse developments. All Investment Officials involved in investment transactions will be bonded.

5.4 **Ethical Standards and Conflicts of Interest.** All City Investment Officials having a direct or indirect role in the investment of City funds shall act as custodians of the public trust avoiding any transaction which might involve a conflict of interest, the appearance of a conflict of interest, or any activity which might otherwise discourage public confidence. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair the ability to make impartial investment

decisions. An Investment Officer who has a personal business relationship with the depository bank or with any entity 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 of 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.

5.5. **Training.** The investment officers shall attend at least one ten-hour training session relating to the officer's responsibility under the Public Funds Investment Act within twelve (12) months after assuming duties, and attend an investment training session not less than once every two years, receiving an additional ten (10) hours of training. Either the Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, the Texas Municipal League, the University of North Texas Center for Public Management or the North Central Texas Council of Governments shall endorse such training.

6. **AUTHORIZED INVESTMENTS.** -Investments described below are authorized by the Public Funds Investment Act. Section 6.2 of this policy describes those investments that are specifically prohibited by the Act. In addition, the purchase of specific investments may at times be restricted or prohibited by the City Treasurer, as the investment officer, due to current market conditions. Securities that were authorized investments at the time of purchase are not required to be liquidated. Except as provide above, City funds governed by this Policy may be invested in:

6.1.1 Obligations of the United States of America or its agencies and instrumentalities.

6.1.2 Direct Obligations of the State of Texas or its agencies and instrumentalities.

6.1.3 Other obligations, the principal and interest of 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.

6.1.4 Certificates of Deposit that are issued by a City Council-approved state, national, or savings bank, domiciled in this state, and are:

a) Guaranteed or insured by the FDIC, or its successor; or

b)Secured by obligations that are described by 6.1 above, which have a market value of not less than the principal amount of the certificates, but excluding those securities prohibited by the Public Funds Investment Act and this policy; or

c) Secured in any other manner and amount provided by law for deposits of the City.

Certificates of Deposit may be transacted with approved public depositories provided the City has on file a Signed Security Agreement that complies with the Public Funds Collateral Act and details:

a) Eligible collateral;
b) Collateralization ratios for the various types of eligible collateral;
c) Standards for collateral custody and control;
d) Collateral valuation; and
e) Conditions for agreement termination.

6.1.5. Eligible Local Government Investment Pools. Public funds investment pools which invest in instruments and follow practices allowed by the current law as defined in Section 2256.016 of the Texas Government Code, provided that:

- the investment pool has been authorized by the City Council;
- the pool shall have furnished the Investment Officer an offering circular containing the information required by Section 2256.016(b) of the Texas Government Code;
- the pool shall furnish the Investment Officer investment transaction confirmations with respect to all investments made with it;
- the pool shall furnish to the Investment Officer monthly reports containing the information required under Section 2256.016(c) of the Texas Government Code;
- the pool is continuously rated no lower than "AAA" or "AAA-m" or an equivalent rating by at least one nationally recognized rating service;
- the pool marks its portfolio to market daily;
- the pool's investment objectives shall be to maintain a stable net asset value of one dollar ($1.00); and
- the pool's investment philosophy and strategy are consistent with this Policy.

6.1.6. Repurchase Agreements, Reverse Repurchase Agreements, Bankers' Acceptances, and Commercial Paper. These investments are authorized for the City to the extent that they are contained in the portfolios of approved public funds investment pools in which the City invests. Only fully collateralized direct repurchase agreements with the City's Bank Depository are authorized City investments. All City repurchase agreement transactions shall be governed by a signed master repurchase agreement. Repurchase agreements must also be secured in accordance with State law as described in Section 10.

6.1.7. Regulated No-Load Money Market Mutual Funds. These investments are authorized, under the following conditions:

- the money market mutual fund is registered with and regulated by the Securities and Exchange Commission;
- the fund provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of1940;
- the fund has a dollar-weighted average portfolio maturity of ninety (90)days or less;
- the investment objectives include the maintenance of a stable net asset value of one dollar ($1.00) per share; and
- the fund is continuously rated no lower than "AAA" or an equivalent rating by at least one nationally recognized rating service.

6.1.8. 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, subject to the provisions of Section 6.

The City may not invest funds under its control in an amount that exceeds 10% of the total assets of any individual money market mutual fund and all prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum designated rating.

6.2. PROHIBITED INVESTMENTS – Under the Public Funds Investment Act, the following are not authorized investments, regardless of any other law to the contrary:

6.2.1. Obligations whose payment represents the coupon payment on the outstanding principal balance of the underlying mortgage-backed security collateral and pay no principal. (Commonly referred to as IOs)

6.2.2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest. (Commonly referred to as Pos)

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

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

The practice of "leveraging" whereby funds are borrowed for the sole purpose of investing shall not be practiced.

7 **DIVERSIFICATION.** Diversification of investment instruments shall be utilized to avoid incurring unreasonable risks resulting from over-concentration of investments in a specific maturity, a specific issue, or a specific class of securities. With the exception of U.S. Government securities (debt obligations issued by the U. S. Government, its agencies, or instrumentalities) as authorized in this Policy, and authorized local government investment pools, no more than fifty percent (50%) of the total investment portfolio will be invested in any one security type or with a single financial institution. Diversification of the portfolio considers diversification by maturity dates and diversification by investment instrument.

7.1. **Diversification by 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 risks caused by change in interest rates. The City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than two (2) years from the date of purchase. However, the above described obligations, certificates, or agreements may be collateralized using longer date instruments. The City shall diversify the use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Maturity scheduling shall be managed by the Investment Officer so that maturities of investments shall be timed to coincide with projected cash flow needs.
The entire City portfolio including funds at the City's depository bank, shall comprise one pooled fund group, and the maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio is two hundred seventy (270) days. Investment maturities for debt service interest and sinking funds and/or other types of reserve funds, whose use is never anticipated, may not exceed three (3) years.

7.2. **Diversification by Investment Instrument.** Diversification by investment instrument shall not exceed the following guidelines for each type of instrument:

Percentage of Portfolio (Maximum)
Treasury Obligations 100%
Government Agency Securities and Instrumentalities of 80%
Government-Sponsored Corporations
Authorized Local Government Investment Pool (per Pool) 100%
Fully Collateralized Certificates of Deposit 50%
Fully Collateralized Repurchase Agreements 50%
SEC-Regulated No-Load Money Market Mutual Fund (per Fund) 20%

8. **AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS.** Financial institutions (federally insured banks) with and through whom the City invests shall be state or national banks that have their main office or a branch office in this state. No public deposit shall be made except in a qualified public depository as established by state laws. Broker/dealers authorized to provide investment services to the City may include only those authorized by the City Council. All banking services will be governed by a depository contract awarded by the City Council. In addition, the City Treasurer shall maintain a list of authorized security brokers/dealers, and investment pools that are authorized by the City Council.

8.1. All financial institutions with whom the City does business must supply the following as appropriate: (1) audited financial statements; (2) proof of National Association of Securities Dealers (NASD) certification; (3) proof of state registration; (4) completed broker/dealer questionnaire; (5) certification of having read the City's investment policy signed by a qualified representative of the organization, acknowledging 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.

8.2. **Annual review of Responder's Financial Conditions.** An annual review of the financial condition and registration of qualified responders will be conducted by the City Treasurer. The review may include, but is not limited to, review of rating agency reports, review of call reports, and analyses of management, profitability, capitalization, and asset quality. Financial institutions and brokers/dealers desiring to conduct business with the City shall be required to provide any financial data requested by the Investment Officer. Upon completion of the annual review by the City Treasurer, the financial institutions and brokers/dealers desiring to conduct business with the City shall be approved by the Mayor.

8.3. **Selection Criteria** for federally insured financial institutions shall include the following: (1) the financial institution must be insured by the FDIC; (2) the financial institution must be incorporated under the laws of the State of Texas or of the United States of America; and (3) the financial institution must be located within the corporate boundaries of the City.

8.4. **Monitoring Investments.** The Investment Officer of the City is responsible for monitoring the investments made by a financial institution and/or broker/dealer to determine that they are in compliance with the provisions of the Investment Policy.

9. **DELIVERY VERSUS PAYMENT.** It is the policy of the City that all security transactions except CD's, investment pools, tri-party repurchase agreements and mutual funds entered into with the City shall be conducted on a **"DELIVERY VERSUS PAYMENT"** (DVP) basis through the Federal Reserve System. By doing this, City funds are not released until the City has received, through the Federal Reserve wire, the securities purchased. The City shall authorize the release of funds only after receiving notification from the safekeeping bank that a purchased security has been received in the safekeeping account of the City. The notification may be oral, but shall be confirmed in writing.

10. **SAFEKEEPING AND COLLATERALIZATION.**

10.1. **Safekeeping.** All securities owned by the City shall be held by its safekeeping agent, except the collateral for bank deposits. The collateral for bank deposits will be held in the City's name in the bank's trust department, or alternatively, in a Federal Reserve Bank account in the City's name, or a third-party bank, at the City's discretion. Original safekeeping receipts shall be obtained and held by the City. 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 time deposits.

10.2. **Collateralization.**

All deposits of City funds, repurchase agreements and securities lending agreements, including any accrued interest, will be fully collateralized by securities permitted under this policy. Collateral securities shall have a market value of not less than 102% of the amount of the deposits, secured thereby, adjusted by the insurance coverage provided those deposits by the Federal Deposit Insurance Corporation. Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping or trust receipt) must be supplied to the City and retained. Determination of market value on collateral shall be made on a weekly basis. All collateral relationships will comply with the terms of the Public Funds Collateral Act.

10.2.2. For certificates of deposit and other evidences of deposit, collateral shall be at 102% of market or par, whichever is lower. The market value of collateral will always equal or exceed the principal plus accrued interest of deposits at financial institutions.

10.2.3. Financial institutions with which the City invests or maintains other deposits shall provide monthly, and as requested by the Investment Officer, 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, description, par value, current market value, maturity date, and Moody's or Standard& Poor's rating, if applicable. The City and the financial institution shall jointly assume the responsibility for ensuring that the collateral is sufficient.

10.2.4. Collateralized Deposits. Consistent with the requirements of State law, the City requires all bank deposits to be federally insured or collateralized with eligible securities. Financial institutions serving as City depositories will be required to sign a "Depository Agreement" with the City and the City's safekeeping agent. The collateralized deposit portion of the Agreement shall define the City's rights to the collateral in the event 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 of the Loan Committee of the Depository and a copy of the meeting minutes must be delivered to the City; and
- the Agreement must be part of the Depository's "official record" continuously since its execution.

10.2.5. Depository. Not less than every five years, a depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal and consistent with state law. In selecting depositories, the service cost and creditworthiness of institutions shall be considered, and the Treasurer shall conduct a comprehensive review of prospective depository's credit characteristics and financial history. All banks will execute a depository agreement covering collateral issues for sale of time deposits if not covered by the competitively bid bank services agreement.

11. **INTERNAL CONTROL.** The Mayor and Primary Investment Officer shall establish a system of written internal controls, which shall be reviewed annually by independent auditors. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. The internal controls are to be reviewed annually in conjunction with an external independent audit. This review will provide assurance of compliance with policies and procedures as specified by this Policy. The City, in conjunction with its annual financial audit, shall perform a compliance audit of management controls and adherence to the City's established investment policy.

12. **REPORTING.** The investment officer shall prepare and submit a quarterly investment report to City Council of all investment transactions for all funds covered for the preceding reporting period. This report will describe the investment position of the entity on the date of the report. It will also include a summary statement prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the beginning market value, additions and changes to market value, ending market value and fully accrued interest for the reporting period and comply with the rules of Section 2256.023 of the Local Government Code.

12.1. **Annual Report.** Within ninety (90) days of the end of the fiscal year, the City Treasurer shall present an annual report on the investment program and investment activity. This report may be presented as a component of the fourth quarter report to the Mayor and City Council. The reports prepared by the City Treasurer shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the Mayor and City Council by that auditor.

12.2. **Methods.** The quarterly investment report shall include a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the past quarter. This management 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 prepared in compliance with generally accepted accounting principles. The report will be provided to the City Council. The report will include the following:

12.2.1. A listing of individual securities held at the end of the reporting period. This list will include the name of the fund or pooled group fund for which each individual investment was acquired;

12.2.2. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period. Market values shall be obtained from financial institutions or portfolio reporting services independent from the broker/dealer from which the security was purchased;

12.2.3 . Additions and changes to the market value during the period;

12.2.4. Fully accrued interest for the reporting period;

12.2.5. Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks;

12.2.6. Listing of investments by maturity date;

12.2.7. The percentage of the total portfolio which each type of investment represents;

12.2.8. Statement of compliance of the City's investment portfolio with State Law and the investment strategy and policy approved by the City Council.

13. **INVESTMENT POLICY ADOPTION AND AMENDMENT.** The City's Investment Policy shall be adopted and amended by resolution of the City Council only. The City's written policies and procedures for investments are subject to review not less than annually to stay current with changing laws, regulations and needs of the City. Any changes or modifications to this Investment Policy, if any, shall be approved by the City Council, and shall be adopted by a formal resolution of the City Council.

Attachment A

INVESTMENT POLICY GLOSSARY OF TERMS

The Investment Policy contains specialized and technical terminology that is unique to cash management and investment activities. The following glossary of terms is provided to assist in understanding these terms.

Affinity. Related through marriage.

Agencies. See United States Agency Securities.

Bankers' Acceptances. A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. When discounted and sold in the secondary market, bankers' acceptances become a short-term investment alternative.

Book Value. The cost of a security as recorded in the accounting records. For purposes of evaluating a sale of a security, it is a function of the original cost, the amortization of premium or discount, and the accrued interest. Specifically, it is the face value of the security, plus the accrued interest, plus any unamortized premium (or minus any unamortized discount). Book value is often compared to market value, which is defined below.

Broker. A person or company that, for a fee or commission, brings buyers and sellers of securities together.

Certificate of Deposit. A time deposit with a specific maturity evidenced by a certificate.

Collateral. In general, assets which one party pledges as a guarantee of performance. Specifically, securities pledged by a bank to secure deposits of public monies. In the event of bank failure, the securities become the property of the public entity.

Collateralized Mortgage Obligations (CMO's). Securities based on a pool of home mortgages.

Commercial Paper. An unsecured promissory note issued primarily by corporations for a specific amount and maturing on a specific day. The maximum maturity for commercial paper is 270 days, but most frequently maturities do not exceed 30 days. Almost all commercial paper is rated by a rating service.

Consanguinity. Related by blood.

Coupon. The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. Also, a certificate attached to a bond indicating interest due on a payment date.

Credit Risk. The uncertainty that the principal amount of an investment will be returned without loss of value to the default of the borrower.

CUSIP. A unique security identification number assigned to securities maintained and transferred on the Federal Reserve book-entry system.

Dealer. A person or company that endeavors to profit from buying and selling investments for its own account.

Delivery Versus Payment (DVP). A method of delivering securities that requires the simultaneous exchange of the security and the payment. It provides a safeguard against paying for securities before they are received.

Demand Deposits. Deposits at a financial institution that are available to the depositor upon the depositor's demand.

Depository Bank. The primary bank. The relationship with the depository bank is governed by state law and by a depository contract.

Discount. The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale is also considered to be at a discount.

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

Diversification. The strategy of dividing investments among a variety of securities offering independent risks and yields. Diversification lessens the likelihood of losing the entire portfolio of investments and averages yields among the investment alternatives.

Federal Deposit Insurance Corporation (FDIC). A federal agency that insures bank deposits.

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

Federal Home Loan Banks (F1-1LB). Created in 1932, this system consists of **12** regional banks, which are owned by private member institutions and regulated by the Federal Housing Finance Board. Functioning as a credit reserve system, it facilitates extension of credit through its owner members. Federal Home Loan Bank issues are joint and several obligations of the 12 Federal Home Loan Banks.

Federal Homes Loan Mortgage Corporate (FHLMC or Freddie Mac). A stockholder-owned corporation that provides a continuous flow of funds to mortgage lenders, primarily through developing and maintaining an active nationwide market in conventional mortgages.

Federal National Mortgage Association (FNMA or Fannie Mae). FNMA, a federal corporation, is the largest single provider of residential mortgage funds in the United States. It is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted.

Hold Until Maturity. This investment strategy is intended to avoid interest rate risk by maintaining ownership of an investment until it matures. At maturity, the face value of the security is received, but in some cases where a security is sold before maturity, less than the face value and the book value is received. Please see Interest Rate Risk defined below.

Interest Rate Risk. The uncertainty of the return of principal on fixed rate securities that are sold prior to maturity. When interest rates rise, the market value of fixed rate securities decreases.

Internal Control. Policies and procedures that are established to provide reasonable assurance that specific government objectives are achieved and that assets are safeguarded.

Investment. The purchase of securities which, upon analysis, promise safety of principal and a satisfactory return. These factors distinguish investment from speculation.

Investment Objective. The aim, goal or desired end of action of the investment activity.

Investment Pool. An entity created to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are safety, liquidity, and yield. (Sometimes called Local Government Investment Pool.)

Investment Strategy. The overall plan or method proscribed to achieve the investment objectives.

Laddered Maturity. An investment strategy whereby investments are purchased to mature at regular intervals.

Liquidity. The measure of an investment's ability to be converted quickly and easily into cash without a substantial loss of value.

Local Government Investment Pool. See **Investment Pool.**

Market Rate of Return. A general term referring to the approximate interest rate that could be earned by an investor in a specific maturity range at any given point in time. For example, an investor seeking to earn a market rate of return while maintaining an investment portfolio with an average maturity of 90 days would hope to earn approximately the same as a three-month agency discount note. If the investor earns a rate much higher than this, it might signal an inappropriate level of risk.

Market Risk. The uncertainty of the value of a financial portfolio arising from changes in the market conditions of investment securities.

Market Value. The price, including accrued interest, at which a security is trading for which it can be readily sold or purchased.

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

Money Market Mutual Fund. A mutual fund that purchases short-term debt instruments, such as Treasury Bills, commercial paper, and bankers' acceptances, and which strives to maintain a stable net asset value of $1.00.

Mutual Fund. Investment companies that sell shares to investors, offering investors diversification and professional portfolio management. Prices generally fluctuate with the performance of the fund.

Net Asset Value. The ratio of the market value of the portfolio divided by the book value of the portfolio.

Par. The value of a security as expressed on its face (face value) without consideration of a discount or premium.

Pledge. The grant of a collateral interest in investment securities by the depository bank as assurance of the safety of deposits.

Pooled Fund Group. The combination of various accounts and funds in a single, internally-created investing entity.

Portfolio. The collection of securities held by an investor.

Principal. The capital sum of an investment, as distinguished from interest.

Premium. The difference between the cost price and the face value at maturity in cases where the cost price is higher than the face value.

Rate-of-Return. See Yield.

Repurchase Agreement (REPO). An investment arrangement in which the holder of a security sells that security to an investor with an agreement to repurchase the security at a fixed price and on a fixed date.

Reverse Repurchase Agreement. An investment arrangement by which a security is sold to a third party, such as a bank or broker/dealer, in return for cash with the agreement to repurchase the instrument from the third party at a fixed price and on a fixed date. The cash is then used to purchase additional investments. This type of investment is prohibited in the portfolio, except to the extent used by local government investment pools as authorized in the Policy.

Safekeeping. An arrangement whereby a bank holds securities and other valuables for protection in exchange for a fee.

Safety. The assurance of the undiminished return of the principal of investments and deposits.

Secondary Market. A market for the purchase and sales of outstanding securities following their initial distribution.

SEC Rule 15C3-1 (Uniform Net Capital Rule). Security and Exchange Commission requirement that member firms and nonmember broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1.

Security. A financial instrument that signifies an ownership interest, the right to an ownership interest, or creditor status.

Security Risks. The uncertainty of the value of a security dependent on its particular qualities.

Time Deposits. Deposits at the depository bank that are not due and payable until a specific date.

United States Agency Securities. Debt instruments issued by an executive department, an independent federal establishment, or a corporation or other entity established by Congress which is owned in whole or in part by the United States of America.

United States Treasury Securities. Debt instruments issued by the Treasury of the United States. **Treasury Bills** are issued for short-term borrowings (less than one year); **Treasury Notes** are issued for mid-term borrowings (two - ten years); **Treasury Bonds** are issued for long-term borrowings (over ten years).

Yield. The rate of annual income return on an investment, expressed as a percentage.

Attachment 3

CITY OF FULSHEAR, TEXAS INVESTMENT POLICY

TEXAS PUBLIC FUNDS INVESTMENT ACT CERTIFICATION BY BUSINESS ORGANIZATION

This certification is executed on behalf of the City of Fulshear, Texas (the "City") and (t h e Business Organization), pursuant to the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act") in connection with investment transactions conducted between the City and the Business Organization.

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

1. The undersigned is a Qualified Representative of the Business Organization offering to enter an investment transaction with the Investor as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code; and
2. The Qualified Representative of the Business Organization has received and reviewed the Investment Policy furnished by the City; and
3. The Qualified Representative of the Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Business Organization and the City that are not authorized by the City's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative of Business Organization:

Firm: _____

Signature: _____

Printed Name: _____

Title: _____

Date: _____

REQUEST FOR PROPOSALS

The City of Fulshear, Texas is accepting applications from eligible financial institutions for depository services for a two-year period beginning May 1, 2012 and ending April 30, 2014, with an optional one-year extension. Applications are available to interested institutions at Fulshear City Hall, P.O. Box 279, Fulshear, Texas during normal business hours. The City's contact person for the Depository Contract is Kristina Brashear, Finance Director, c/o City of Fulshear, (281) 346-1796. Applications, in duplicate and clearly marked "APPLICATION FOR BANK DEPOSITORY SERVICES" are due by 5:00 p.m., April 4, 2012 at the following address:

City of Fulshear, Texas
Kristina Brashear
Finance Director
30603 FM 1093
P.O. Box 279
Fulshear, Texas 77441

NO PROPOSAL WILL BE RECEIVED AFTER 5:00 P.M. ON April 4, 2012. The final award of the Contract will be made by the Fulshear City Council at a meeting on April 17, 2012 at 7:00pm, 30603 F.M. 1093 Fulshear, Texas 77441 or on a future date to be determined at that meeting. The City reserves the right to reject any and all proposals and waive minor technicalities in proposals.