

City of Ingleside, Texas

Request for Application
For
Bank Depository Services
July 18, 2013

NOTICE

The City of Ingleside is soliciting applications from qualified banking institutions to provide Bank Depository Services for the City. The initial contract period will begin January 1, 2014 and end December 31, 2016. At the City's option, the contract may be renewed for two additional 12-month periods, or until the successor Depository has been selected according to the state laws of Texas.

These applications are expected to be considered by the City Council at its Regular City Council Meeting on Tuesday, September 10, 2013, at 6:30 p.m. at City Hall, 2671 San Angelo Street.

Submission Deadline: Thursday 2:00 PM, August 22, 2013

Note: Applications received after this deadline cannot be considered.

Designate on the front, lower, left hand corner of your sealed response envelope, the following:

Subject: Bank Depository Services

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REQUIRED SCHEDULES AND DOCUMENTS – To Be Completed By Applicant

1. Transactions and Calculation of Service Charges
2. Credit and Debit Card Transactions and Fees
3. Depository Credit Evaluation Form
4. Overdrafts
5. Contact Personnel
6. Governmental Client References
7. Bank Depository Agreement
8. Security Agreement

ATTACHMENTS – To Be Provided By Applicant

1. Sample Account Analysis Statement
2. Funds Availability Schedule
3. Historical Interest Rates Paid & Basis of Rate Establishment
4. Custody Agreement
5. Bank Financial Information
6. Security Protection & Control Measures
7. Technology Specifications
8. Sample Safekeeping Account Statement

EXHIBIT 1 - City Of Ingleside Investment Policy

I. INTRODUCTION

The City of Ingleside (the "City") is requesting applications from eligible and qualified financial institutions to provide the City with the bank depository services described below. The services provided will be in accordance with this Request for Application (the "RFA") and attachments. A separate Bank Depository Services Agreement detailing the services to be provided in a form acceptable to the City and incorporating the accepted RFA shall be executed between the City and the selected financial institution.

The philosophy incorporated into this RFA is to solicit offers for services currently utilized or open for consideration by the City. The City intends to manage its funds to minimize service charges and optimize investment income as authorized by City policy and permitted by state law. The City reserves the option to reduce future collected fund balances and invest in available investment instruments.

The new agreement will be for a three-year term beginning January 1, 2014 through December 31, 2016, with a provision for two, one year continuations under the same terms and conditions of the contract, at the option of the City and with the concurrence of the institution. The agreement will also provide for an extension period not to exceed ninety (90) days for the possible transition to a new bank at the end of the term.

The City reserves the right to open or close any number or type of accounts as it deems necessary throughout the term of the agreement. Any fee charged for services not listed but later requested by the City will be mutually agreed upon. All fees shall be fixed for the entire contract period.

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

- ◆ Capable of providing the services required by the City ,
- ◆ Willing to be attentive and responsive to the City's financial matters, and
- ◆ Financially sound and meets the City's requirements.

Because it is in the City's best interest in obtaining the best value in depository services, the City expressly permits the consideration of applications for depository services from a bank, credit union or savings association that is not doing business within the City Of Ingleside, but that is doing business in San Patricio County.

II. REQUEST for APPLICATION

This RFA is intended to serve as the offer form for the Bank Depository Services Agreement. There are several blanks to fill in and questions to be answered. The evaluation of the applicant's application will be based on the responses included herein.

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

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

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

The City desires to enter into a contract of mutual party benefit and will respond to questions pertaining to this RFA. In this regard, the City will hold a applicants' conference at City's Hall prior to the deadline for submission of applications. Attendance at the applicants' conference is not mandatory but encouraged. Please note the following calendar of events for the dates and times of key elements in the bid procedure.

III. CALENDAR of EVENTS

<u>Target Date</u>	<u>Day</u>	<u>Event</u>
July 18, 2013	Thursday	First advertisement of the RFA.
July 18, 2013	Thursday	RFA distributed to prospective financial institutions.
July 25, 2013	Thursday	Second advertisement of the RFA.
Aug 6, 2013	Tuesday	Applicants conference 2:00 PM at City Hall.
Aug 22, 2013	Thursday	Submission Deadline: 2:00PM at City Hall.
Sept. 5, 2013	Thursday	Recommendation finalized for Council Meeting packet.
Sept. 10, 2013	Tuesday	City Council consideration of contract award.
Sept. 24, 2013	Tuesday	Execute Agreements.
TBD	Monday	Begin implementation process.
January 1, 2014	Wednesday	New Bank Services Agreement period begins.

IV. CRITERIA FOR EVALUATION

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

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

When evaluating applications, the City intends to utilize an Evaluation Model specifically designed for this analysis. The Evaluation and Selection process will be based on: 1) Technical Solution, 2) Applicant’s Profile and Qualifications, 3) Local Presence, 4) Fees and 5) Exceptions. The final weight assigned to each of these parameters will be determined by the Evaluation Committee.

Technical Solution	Applicant’s Profile & Qualifications	Local Presence	Fee Schedule	Exceptions	Total
10-20%	15-25 %	0-5%	40-50%	5-10%	100%



V. ACCOUNT ACTIVITIES

The City anticipates establishing accounts similar to those currently in use, including the following:

- ◆ Disbursement Account
- ◆ Payroll Account (ZBA)
- ◆ Pooled Funds Account
- ◆ Short Term Investments such as Certificates of Deposit.

Currently the City utilizes a Pooled Funds Account to employ a “pooled cash” system. The City has a bi-weekly payroll with electronic debits/checks drawn on the Payroll Account. Additionally, the City offers its employees direct deposit of payroll. Deposits are made daily in the Pooled Funds Account. Payables checks are written from the Disbursement Account bi-weekly. The proposing bank must have the capability of receiving and sending wire transfers, ACH transfers, direct deposits through these accounts. In addition, remote capture of deposit items is a necessary capability.

VI. BANK SERVICES

The City requests information on the following services:

- A. Interest-Bearing Accounts – The City uses interest bearing checking accounts. The proposing bank should provide information of interest rate formulas and calculations, historical rates, and any alternate interest earning options.
- B. Balance Reporting – The City requires on-line balance reporting for daily access to its account balance information. The minimum information to be contained in the electronic reporting should be for the previous business day and include: ledger balance, collected balance, one day float amount, two day float amount, total credits, total debits, and detail debits and credits.
- C. Computerized Transactions – The City requires a proprietary banking or internet-based system to initiate various transactions. Potential transactions include repetitive wire transfers, ACH transfers, stop payments, and internal fund/account transfers.
- D. Positive Pay and Account Reconciliation - The City intends to utilize positive pay services accompanied by full or partial account reconciliation services for its most active accounts. The bank would only honor those City issued checks that are pre-authorized through the positive pay system. Positive Pay files are transmitted electronically.
- E. Account Analysis – The City is requesting account analysis statements on a monthly basis by individual account and at group level which will reflect average ledger balance, average uncollected funds, average collected balance, reserve requirement, average available balance, rate and amount of earnings credit, and detail of services provided with quantities and unit fees for each to arrive at a total service cost.

- F. Bank Statements - Statements shall be rendered within seven (7) working days after the close of the calendar month. The statement shall include debits and credits made on the last day of the period and the detail items. Bank statements should be received on a monthly basis, even if there is no activity for the account. Detail checks, sorted by check number, and deposit slips should be returned to the City along with the statement or images of such items provided. The statement should also include a paid item listing and reconciliation diskette for the Disbursement and Payroll Accounts. The City would like the option of receiving a CD containing its checks and deposit slips electronically imaged.
- G. Federal Tax Payment – The City requires Federal Income Tax withholding and payment services.
- H. Credit and Debit Card Payments – The City accepts as payment credit and debit cards for certain charges and service fees.
- I. Collateralization - The balances maintained in all accounts must be collateralized in the same manner and under the same stipulations as outlined in the Collateral Requirements section.
- J. Payment for Services – The City desires an equitable reimbursement arrangement for the depository services provided. A direct fee basis for services provided by the Depository with an offsetting earnings credit for available balances is the method typically used by the City. This process requires the monthly calculation of a net depository service cost. The Depository will calculate the total monthly service costs for all accounts and the total monthly earnings credit for all accounts on the account analysis statement. The net of total service costs and total earnings credits equals net banking service costs for the month. Earnings credit must be given to the City for all account balances grouped together and not for single account balances.
- K. Please provide a detailed explanation of the depository's policy and methodology used in the setting of the earnings credit rate. Provide a schedule of the earnings credit rates offered by the depository since January 1, 2009.
- L. Provide an explanation of basis for money market rates and list the interest rates paid each month on interest bearing accounts since 1, 2009.
- M. Account Settlement - Settlement of the excess/deficient condition as reflected by the group level account analysis is to occur on a quarterly basis.
- N. Research – The City requests that all research requests be responded to within three business days of the request.
- O. Bank Errors - Bank errors resulting in lost interest to the City will be reimbursed by the Bank to the City. The Bank and the City will agree upon the method of reimbursement. The Bank will notify the City in writing of all deposit corrections made, regardless of amount. The Bank will provide detail information of deposit correction.

- P. Safekeeping and Security Clearance – The City requires security clearance and safekeeping services for the City’s investment securities. The Bank will propose procedures for security clearance, including time deadlines for purchase authorization notification and methods of notification. The Bank will provide information as to the type of account the securities are held and cleared through.
- Q. Vendor ACH Payment System – The City is interested in offering a vendor ACH payment system with appropriate blocking security. The Bank will provide information and pricing related to this service option.
- R. The City intends to electronically transmit data to the Depository regarding those City utility customers who have previously authorized the City to automatically debit their demand deposit accounts for City utility bills. The Depository must be able to provide this direct debit service.
- S. Direct deposit of payroll is a service the City offers its employees. Approximately 69 employees or 97% are set up for automated payroll deposit. The City will require that the payroll transfers occur electronically, directly to the employee’s depository account. Please provide cut-off times and other appropriate information.
- T. Describe any other cash management or depository services that could be offered to the City. List all charges, which would apply.

VII. COLLATERAL REQUIREMENTS

- A. As security for the deposits of the City, the selected bank shall pledge securities equal to 102% of their market value (110% of mortgage backed securities), of the largest total balances the City maintains in the bank, less the amount provided by the Federal Deposit Insurance Corporation. The City reserves full discretion in approving all pledged securities. Any securities so pledged shall satisfy all State of Texas and City requirements.
- B. The securities pledged shall be held in safekeeping at an unaffiliated financial institution acceptable to both the City and the successful bank and governed by a tri-party custodial agreement. The original copy of all security receipts shall be filed with the Director of Finance.
- C. The selected bank and the custodial bank shall provide the City a report of securities pledged at the end of each month or at any time requested by the City. The report should reflect the total pledged securities itemized by:

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

- D. Any substitutions of the securities or reductions in the total amount pledged shall be made only by and with the proper written authorization by a City signatory. In the case of collateral level reductions, the selected bank shall provide in writing that collateral shall be available when needed to meet normal balance increases throughout the year. Any securities pledged shall have a rating of "A" or better by a nationally recognized rating firm. The Bank will provide methods and time requirements for the increase or decrease of collateral levels.
- E. The Board of Directors or designated committee of the selected bank will be required to provide a resolution of certification approving the commitment and delivery of the collateral to the safekeeping institution not later than five days before the commencement of the contract period.

VIII. INVESTMENT ACTIVITIES

- A. Direct Investment Alternative - The City's direct investment activities include participation in local government investment pools, money market mutual funds and direct investment purchases. Most direct investments are kept by the depository bank and these services will be essential if the City chooses to make direct investments. The City shall have the right, at its sole discretion, to direct investment of its funds.
- B. Certificates of Deposit - Certificates of Deposit (CD's) purchased for the City shall be non-negotiable and shall be registered in the name of the City. The CDs must be fully insured by the F.D.I.C. or collateralized in accordance with the RFA requirements. Proof of collateral must be supplied to the City prior to CD purchase. When the net yield warrants, the City may utilize the Certificate of Deposit Account Registry Service – CDARS.
- C. Interest Calculations - Interest on all CDs shall be computed on an actual day basis, and the interest shall be paid to the City as mutually agreed. The payment of principal and interest shall be made by crediting the account from which the CD was purchased.
- D. Extension of CDs - The selected bank agrees to honor and continue any CD made during the term of the Bank Depository Services Agreement that will mature after the expiration date of the Agreement at the same rate established before the expiration of the contract.

IX. OVERDRAFT PROVISIONS

The City does not intend to have a net overdraft position occur during the course of the contract period. A net overdraft shall be defined as a negative balance in the City's accounts collectively, not by individual account.

In the event a check or checks shall be presented for payment where there is insufficient funds for the purpose of paying checks, the selected bank agrees to promptly notify the Director of Finance, by telephone or other means, of the overdraft condition, and to provide the Director of Finance a period not exceeding one business day to respond and rectify the condition without cost.

X. OTHER STIPULATIONS

- A. The successful applicant shall notify the City in writing within ten (10) days of any changes in Federal or State regulations or laws that would affect the Bank Depository Services Agreement.
- B. Notification of wire transfers shall be made to the City by the successful applicant within two hours of the transaction and a written confirmation mailed to the City the same day of the transaction.
- C. In the event it would be ruled illegal under the provisions of any Federal or State laws or regulations for the selected bank to comply with the requirements of the Bank Depository Services Agreement, then the City expressly reserves the right and privilege to cancel the Bank Depository Services Agreement and to reconsider previous applications or to solicit new applications.
- D. In the event of the sale or closing of the depository institution during the term of the depository agreement the City reserves the right to terminate the agreement and seek applications for a new depository. Notice of the City's intent to seek new applications shall provide the institution with 120 days notice of the effective date of the termination of the contract.
- E. The selected bank's records relating to the City's accounts shall be open for review during normal business hours by designated staff members or appointed independent auditors.

XI. APPLICATION REQUIREMENTS

- A. Three complete copies and one diskette of the application, sealed and clearly marked "Bank Depository Services," shall be delivered by 2:00 P.M., on Thursday, August 22, 2013, and addressed:

City Manager
City of Ingleside
2671 San Angelo
Ingleside, Texas 78362
361.776.2517

Designate on the front, lower, left hand corner of your sealed response envelope, the following:

Subject: Bank Depository Services

Submission Deadline: 2:00 PM, Thursday, August 22, 2013

Applications received after this deadline cannot be considered

- B. The proposing institution shall use this RFA as the Official Application Form. Submitted prices, rates, conditions, and answers shall be included in final contract form. The signed, submitted response should include printed copies of all completed worksheets and will be deemed the respondent's official application. To reduce errors and increase ease of response and evaluation, the City will supply the RFA in MS-Word format upon request.
- C. The City reserves the right to request additional information or to meet with representatives from proposing organizations to discuss points in the application before and after submission, any and all of which may be used in forming a recommendation.
- D. The City reserves the right to reject any and all applications, and to accept the application it considers to be the "best value" to the City, based upon the ability to perform and provide the required and requested services; reputation of bidder and quality of services; cost of services; funds availability; interest rates paid on interest bearing accounts and deposits; earnings credit calculation on account balances; completeness of application and agreement to points outlined in the RFA; convenience of locations; previous service relationship with the City; and financial strength and stability of institution.
- E. Applicants must qualify under current state law to serve as a depository bank.
- F. Transfer of funds will commence at such time the successful applicants has provided the City with all required forms and supplies necessary to insure uninterrupted day-to-day operations. Applicant shall, upon termination of contract, cooperate with the new bank for transfer of funds.
- G. Sealed applications will be publicly opened and acknowledged only at the expiration of the response deadline. Results of the submitted applications will be available after the City Council selects the successful bank.
- H. Any questions concerning this RFA should be directed to:

Paul Baen,
City of Ingleside
2671 San Angelo
Ingleside, TX 78362
361.776.2517
361.776.0109 fax
pbaen@inglesidetx.com

XII. OTHER MISCELLANEOUS

- A. The City may require periodic review meetings to evaluate the working relationship between the City and the selected bank. The objective shall be to address any problems and to seek solutions as well as keeping abreast of changes, new services, or new requirements.
- B. The final appointment of the selected bank shall be made by contract award of the City Council. The selected bank may be required to enter into a contract that incorporates all of the requirements of this RFA. Otherwise, the selected bank's RFA, as the OFFICIAL APPLICATION FORM, with the accompanying related schedules and materials as called for in this RFA, will be accepted. Additional contract attachments include: tri-party custodial agreement, FIRREA bank certification, and PFIA investment provider certification.
- C. The laws of the State of Texas will govern any Contract resulting herefrom. The contract shall be executed in San Patricio County, Texas. The applicable law for legal disputes arising out of the Contract resulting herefrom shall be the law of the State of Texas.
- D. This RFA has been duly advertised and is being offered for consideration to financial institutions as permitted by the City policy.

The following person duly authorized to act on behalf of the City is offering this Request For Application.

Jim Gray, City Manager

APPLICATION SUBMITTED BY

The following person duly authorized to act on behalf of this financial institution is submitting this Application to the City.

Name of Financial Institution

Address of Financial Institution

Telephone Number

Officer Name & Title (Printed)

Officer Signature

Date

XIII. ACCEPTANCE OF APPLICATION

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

Name (print)

Signature

Title (print)

Date

REQUIRED SCHEDULES

Transactions and Calculation of Service Charges (Sample Month)

BANKING SERVICES PROVIDED FOR RELATIONSHIP:					
Service code	Description of service	Volume	Price	Total	BALANCE REQUIRED TO OFFSET
10000	ACCOUNT MAINTENANCE-2	4			
10100	DEBITS POSTED	121			
10101	CR.EDITS POSTED	11			
10703	STATEMENTS RENDERED	6			
19999	SPECIAL SIGNATURE REQ-BASE FEE	6			
19999	SPECIAL SIGNATURE REQ-ITEMS	114			
1010	REMOTE CAPTURE MONTHLY	1			
	TOTAL GENERAL ACCOUNT SERVICES				
10	DEPOSITORY SERVICES				
10	REMOTE CAPTURE - ON US ITEMS	90			
10	REMOTE CAPTURE - LOCAL RCPC ITEMS	5			
10	REMOTE CAPTURE - TRANSIT CLEARING	1034			
10	REMOTE CAPTURE - 11TH FED COUNTRY	1			
10	REMOTE CAPTURE - OTH 11TH FED RCPC	8			
10	REMOTE CAPTURE - LOCAL CITY ITEMS	28			
10	REMOTE CAPTURE - LOC STATEWIDE	837			
10	REMOTE CAPTURE - IMAGE CAPTURE	2,003			
10	REMOTE DEPOSIT. CAPTURE - CREDITS	24			
100400	RETURN ITEMS	3			
100402	RECLEAR ITEMS	1			
	TOTAL DEPOSITORY SERVICES				
15	PAPER DISBURSEMENT SERVICES				
151352	CASH MANAGER IMAGES	1			
	TOTAL PAPER DISBURSEMENT SERVICES				
25	GENERAL ACH SERVICES				
250102	ACH ORIGINATION - ITEM	442			
250110	ACH MONTHLY FEE	1			
250120	ACH ADDENDUM RECORD IN/OUT	70			
250200	ACH INCOMING DEBITS	17			
250201	ACH INCOMING CREDITS	52			
	TOTAL GENERAL ACH SERVICES				
35	WIRE AND OTHER FUNDS TRANSFERS				

350222	CM ACCOUNT TRANSFER	4
350300	INCOMING FED WIRES	4
35041Z	WIRE ADVICES MAILED	5
	TOTAL WIRE AND OTHER FUNDS TRANSFERS	
40	INFORMATION SERVICES	
	DISBURSEMENT RECONCILIATION	
40005	PREVIOUS DAY REPORTING MODULE	1
400110	INTRA DAY REPORT	6
400222	PREVIOUS DAY REPORTING	6
400272	PREVIOUS DAY RPTING DETAIL ITEMS	225
	TOTAL INFORMATION SERVICES	
45	INVESTMENT/CUSTODY SERVICES	
450020	INVESTMENT SWEEP	1
	TOTAL INVESTMENT/CUSTODY SERVICES	
<hr/>		
	TOTAL ACTIVITY CHARGES	
	TOTAL WAIVED SERVICE CHARGES (W)	
	TOTAL HARD SERVICE CHARGES (II)	

Credit and Debit Card Transactions and Fee

Sample Month

Credit and Debit Card Transactions and Fee

Sample Month

I. The City requires a Depository that is fiscally strong. Thus each depository institution applying to become a depository for the City must complete the following Depository Credit Evaluation Form relative to your organization:

DEPOSITORY CREDIT EVALUATION FORM

ASSET QUALITY RATIOS	YEAR ENDING 2011	YEAR ENDING 2012
Equity to asset ratio	_____	_____
Reserves as % of total loans	_____	_____
Non-performing loans to total loans	_____	_____
Current loan loss to total loss	_____	_____
Loan loss reserves to total loans	_____	_____
CAPITAL ADEQUACY INDICATORS		
Total capital and surplus	_____	_____
Capital to loans	_____	_____
Capital to total assets	_____	_____
PROFITABILITY INDICATORS		
Return on Assets	_____	_____
Return on Equity	_____	_____
Net Interest Margin	_____	_____
LIQUIDITY RATIOS		
Loans to Deposits	_____	_____
Gross loans to total assets	_____	_____
Problem loans to primary capital	_____	_____
Liquid assets to total assets	_____	_____

Overdrafts:

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

Maximum number of banking days the overdraft shall be allowed: _____

Maximum amount of the overdraft: _____

\$

Interest rate per annum computed on the overdraft: _____

%

Contact Personnel

The bidder shall provide a list of all contact personnel within the Bank for communication and assistance with the City:

<u>DESCRIPTION</u>	<u>NAME</u>	<u>TITLE</u>
Relationship Officer	_____	_____
General Information	_____	_____
Investments & Safekeeping	_____	_____
Accounting/Bookkeeping	_____	_____
Deposit Discrepancies	_____	_____
Balance Reporting	_____	_____
Account Reconciliation	_____	_____
ACH Processing	_____	_____

Using the format outlined below, the Applicant should provide GOVERNMENTAL Client references within the region.

GOVERNMENTAL Client Reference 1

Organization name:	Contact and title:
Address:	Phone number:
Effective date of contract:	Description of services provided:

GOVERNMENTAL Client Reference 2

Organization name:	Contact and title:
Address:	Phone number:
Effective date of contract:	Description of services provided:

GOVERNMENTAL Client Reference 3

Organization name:	Contact and title:
Address:	Phone number:
Effective date of contract:	Description of services provided:

BANK DEPOSITORY AGREEMENT

This depository agreement for public fund entities, together with the terms of the BANK's bid to serve as depository, a copy of which is attached hereto, if applicable (collectively, this "Agreement"), is made and entered into on the date last herein written by and between **CITY OF INGLESIDE**, hereinafter called "DEPOSITOR," and _____ BANK, a national banking association, duly organized and authorized by law to do banking business in the State of Texas and now carrying on such business in said State (the "BANK").

1. Appointment of Depository and Term.

DEPOSITOR designates BANK as a depository for the period beginning **INSERT AGREEMENT EFFECT DATE** and continuing until this Agreement has been canceled in accordance with the provisions hereof, for certain accounts in the name of the DEPOSITOR, and such accounts shall be opened by the DEPOSITOR designating the accounts and making deposits therein and the BANK accepting said deposits. The term of this Agreement (the "Term") shall be **INSERT APPLICABLE TIME PERIOD** as defined in the **CITY OF INGLESIDE's** Request for Proposal, unless the parties mutually agree to an extension of the Term of this Agreement if such extension is allowed by applicable law. If the parties agree to such an extension of the Term, then the parties shall either execute an addendum to this Agreement or other written evidence stating that the parties have agreed to an extension, the statutory or other legal authority for such extension and the date upon which such extension of the Term expires.

During the Term of this Agreement, the DEPOSITOR will, through appropriate action of its governing body, designate the officer or officers who, individually or jointly, will be authorized to represent and act on behalf of the DEPOSITOR in any and all matters of every kind arising under this Agreement, including, but not limited to, taking such actions as: (a) executing and delivering to BANK an electronic fund or funds transfer agreement (and any addenda thereto); (b) appointing and designating, from time to time, a person or persons authorized to request withdrawals, orders for payment, or transfers on behalf of DEPOSITOR in accordance with the electronic fund or funds transfer agreement and addenda; (c) making withdrawals or transfers by written instrument; and (d) delivering to BANK the DEPOSITOR'S collateral policy and evidence of approval by the DEPOSITOR'S governing body of (1) the collateral policy, (2) the CUSTODIAN (defined below), (3) this Agreement, and (4) the attached Security Agreement (defined below).

2. Establishment of Accounts.

DEPOSITOR shall deposit such of its funds as it may choose, and BANK shall receive such deposits as "Demand Deposits," Interest on Checking Accounts ("IOCs"), "Savings Accounts," Money Management Accounts ("MMAs"), and/or Certificates of Deposit ("CDs"), as designated by DEPOSITOR, and BANK shall hold said Demand Deposits, IOCs, Savings Accounts, MMAs, and/or CDs subject to payment in accordance with the terms of the particular deposit. BANK will allow, credit, and pay interest on such IOCs, Savings Accounts, MMAs, and/or CDs at a rate to be set by the BANK, with: (1) interest on IOCs and MMAs to be paid monthly as it accrues through the last day of each month; (2) interest on Savings Accounts to be paid quarterly as it accrues through the last day each quarter; and (3) interest on CDs to be paid at maturity. Interest on CDs shall be calculated for the exact number of days on the basis of a 365-day year. All BANK accounts or products listed above shall be in the name of PUBLIC FUND NAME, CITY OF INGLESIDE with the designation of the fund or account in accordance with instructions of CITY OF INGLESIDE.

3. Depository Services; DEPOSITOR Records; Fees.

Subject to the provisions stated above and to the particular terms of MMAs, Savings Accounts, or IOCs, BANK shall pay on demand to the order of DEPOSITOR upon presentation of checks, drafts, or vouchers properly issued, all or any portion of said deposits now on deposit or to be deposited with said BANK, as long as collected funds are on deposit.

BANK statements, check images, check registers, deposit slips, debit and credit notices, reconciliations, notices of interest earned, and any other related documentation, or images thereof, shall be retained by BANK for a period of 7 years after the date of receipt of the items. To the extent permitted by law, BANK shall make all records, books, and supporting documents, or images thereof, pertaining to services applicable to DEPOSITOR accounts and transactions pursuant to this Agreement available at any reasonable time during the term of this Agreement, to DEPOSITOR and its designated representatives. To the extent permitted by law, DEPOSITOR shall have the right to examine, audit, inspect, or make copies of any of such documents.

To determine charges for services rendered, BANK utilizes the previous month's average 91 day Treasury Bill auction discount rate **plus X basis points** as an earnings credit rate on BANK'S account analysis system. This system is used to calculate and account for all BANK service charges. BANK will calculate the DEPOSITOR'S combined average daily collected balances less combined average daily Federal Reserve requirements, and using the previous month's average 91-day Treasury Bill auction discount rate, will calculate the earnings of the BANK and use those earnings to offset the cost to the DEPOSITOR of combined services rendered by BANK. For any amount of cost of services not offset by DEPOSITOR'S balances as described above, DEPOSITOR shall remit payment in such amount to BANK monthly. Any excess available balance can be carried to the next month for service compensation. Any interest paid on IOCs, Savings Accounts, or MMAs is considered an expense on the account analysis statement.

4. Security of Funds; Acceptable Security; Appointment of CUSTODIAN; Increases in Collateral Amounts.

All funds on deposit with BANK to the credit of the DEPOSITOR (including Demand Deposits, IOCs, Savings Accounts, MMAs, and CDs) shall be secured pursuant to the BANK's "Security Agreement" or similar agreement (the "Security Agreement") and any agreement required by the CUSTODIAN (defined below), all of which are attached hereto.

DEPOSITOR and BANK, by execution of this Agreement, designate Federal Reserve Bank/Federal Home Loan Bank as the "CUSTODIAN," to hold collateral in an account maintained by CUSTODIAN in the name of the BANK and subject to the control of DEPOSITOR, according to the terms and conditions of this Agreement, the Security Agreement, and any agreement required by the CUSTODIAN to document such relationship.

DEPOSITOR recognizes that the Federal Deposit Insurance Corporation (or its successor) (the "FDIC") provides insurance for DEPOSITOR'S funds deposited at any one Texas financial institution, including accrued interest on such funds, only up to maximum regulatory limits as set by the FDIC. All uninsured funds on deposit with BANK to the credit of the DEPOSITOR shall be secured by collateral as provided for in the Texas Public Funds Collateral Act and in other applicable law (collectively, the "Acts"), and DEPOSITOR agrees and certifies that the collateral listed in Exhibit A to the Security Agreement shall be used as collateral to secure DEPOSITOR'S funds on deposit with the BANK. The market value of the collateral securing DEPOSITOR'S funds must at all times equal or exceed 102% (110% when mortgage-backed securities are used for collateral) of the daily ledger balance (amount of funds plus the amount of any accrued interest on the funds) of all DEPOSITOR'S Demand Deposits, IOC's, Savings Accounts, MMA's and CDs, less the FDIC standard maximum deposit insurance amount ("SMDIA") (the "Collateral Requirement"). The market value with respect to any collateral as of any date and priced on such date will be obtained by the BANK from a generally recognized pricing source.

When the need for collateral with the BANK is expected to increase on any given day or over a series of days, DEPOSITOR agrees to notify the BANK of such expected increase at least 1 business day prior to the expected date the additional deposits are expected to be received.

5. Delivery of Collateral to CUSTODIAN.

BANK already, or will immediately after the effective date of this Agreement, deliver to CUSTODIAN collateral of the kind and character above mentioned of sufficient amount and market value to provide adequate collateral for the uninsured funds (as described in Section 4 above) of DEPOSITOR deposited with BANK. Such collateral or substitute collateral (as discussed below), shall be kept and retained by CUSTODIAN in an account maintained in the name of BANK and subject to the control of DEPOSITOR pursuant to the terms of this Agreement

and of the Security Agreement, so long as the depository relationship between DEPOSITOR and BANK shall exist, and after the termination or expiration of this Agreement so long as any portion of the deposits made by DEPOSITOR with BANK shall have not been properly paid out by BANK to DEPOSITOR or on its order. The BANK grants a security interest in such collateral to DEPOSITOR. The joint custody account at the Federal Reserve Bank/ Federal Home Loan Bank will be held in the BANK's and DEPOSITOR's name.

6. Custodian Safekeeping Account.

The BANK shall cause CUSTODIAN to accept said collateral and hold the same in trust for the purposes stated in this Agreement, in a separate joint safekeeping account with the CUSTODIAN, the DEPOSITOR, and the BANK, to be managed pursuant to the Security Agreement, and the operating agreements, guidelines, and procedures as stated in this Agreement and pursuant to the terms of any separate agreement with the CUSTODIAN.

7. Duties and Liabilities of CUSTODIAN.

It is distinctly understood by all the parties that the CUSTODIAN shall not be required to ascertain the amount of funds on deposit by the DEPOSITOR with BANK, nor the validity, authenticity, genuineness, or negotiability of the securities deposited with the CUSTODIAN by BANK pursuant to this Agreement, and the CUSTODIAN is not liable to anyone for performing in accordance with this Agreement, except for the safekeeping of the securities delivered to Custodian, and for any negligence, gross negligence or willful misconduct of CUSTODIAN's own officers, agents, and employees.

8. Right of DEPOSITOR Upon BANK'S Breach of Duties Under Agreement or BANK'S Insolvency.

Should BANK fail at any time to pay immediately and satisfy upon proper presentation any check, draft, or voucher lawfully drawn upon any Demand Deposit, or fail at any time upon proper presentation or authorization to pay and satisfy, when due, any check, draft, or voucher lawfully drawn against any IOC, MMA, or Savings Account and the interest on such IOC, MMA, or Savings Account, or in case BANK becomes insolvent or in any manner breaches its contract with DEPOSITOR, it shall be the duty of the CUSTODIAN, upon the demand of DEPOSITOR (in DEPOSITOR'S sole discretion, and supported by proper evidence of any of the above listed circumstances), to surrender the above-described collateral to DEPOSITOR. DEPOSITOR may, in accordance with the terms of this Depository Agreement and any applicable provisions of a Security Agreement, sell all or any part of such collateral, and out of the proceeds of such sale deduct for itself payment of all damages and losses sustained by it, together with all expenses of any kind and every kind incurred by DEPOSITOR on account of such breach, failure or insolvency, accounting to BANK for the remainder, if any, of such proceeds or collateral remaining unsold.

9. Collateral Substitutions by BANK.

If BANK shall desire to sell or otherwise dispose of any one or more of such collateral so deposited with the CUSTODIAN, it may, with prior approval of DEPOSITOR, substitute for any one or more of such collateral other collateral of the same market value and of the character authorized in this Agreement, and such right of substitution shall remain in full force and be exercised by BANK as often as it may desire to sell or otherwise dispose of any such collateral; provided, however, that at all times, the aggregate amount of such collateral or substituted collateral deposited with the CUSTODIAN shall always be such that it meets the Collateral Requirement. If at any time the aggregate amount of such collateral so deposited with the CUSTODIAN is less than the Collateral Requirement, then in that event, BANK shall immediately deposit with the CUSTODIAN additional collateral as may be necessary to meet the Collateral Requirement.

BANK shall be entitled to income on collateral held by the CUSTODIAN, and the CUSTODIAN may dispose of such income as directed by BANK without approval of DEPOSITOR, to the extent such income is not needed to secure DEPOSITOR's deposits, and provided that retention of such income does not otherwise violate this Agreement.

10. Trust Receipts For Collateral; DEPOSITOR'S Right To Itemized List of Collateral.

BANK shall cause CUSTODIAN to promptly forward to DEPOSITOR trust receipts covering all such

collateral held for DEPOSITOR by CUSTODIAN, including substitute collateral substituted in accordance with this Agreement. BANK shall also maintain records relating to all such collateral held for the benefit of DEPOSITOR. Upon written request of the DEPOSITOR, and if in accordance with the CUSTODIAN's agreement, the BANK shall request that the CUSTODIAN furnish as of any date requested a completely itemized list of collateral held as security for DEPOSITOR.

11. Collateral Value In Excess of Collateral Requirement.

If at any time the collateral held by the CUSTODIAN for the benefit of the DEPOSITOR has a market value in excess of the Collateral Requirement, then upon the written authorization of an authorized representative of the BANK, confirmed by an authorized representative of the DEPOSITOR, the BANK may request withdrawal of a specified amount of collateral, the CUSTODIAN shall deliver this amount of collateral (and no more) to BANK, and the CUSTODIAN shall have no further liability for collateral so redelivered to BANK.

All substitutions, releases, and additional pledges of collateral pursuant to the terms hereof and of the Security Agreement shall be completed at the earliest time as is commercially reasonable.

12. Termination; Amendment of Agreement.

Either DEPOSITOR or BANK shall have the right to terminate this Agreement prior to the expiration date by providing the other party with 90 days prior written notice of its election to terminate. The Agreement shall terminate 90 days after delivery of such written notice, provided that all provisions of this Agreement have been fulfilled.

In addition to any other remedy that DEPOSITOR may have at law or in equity, if BANK breaches this Agreement in any manner or defaults on its obligations hereunder and does not cure such breach or default within 30 days of BANK receiving notice of such breach or default from DEPOSITOR, then after expiration of such 30 day cure period, DEPOSITOR may terminate this Agreement and withdraw its funds by giving BANK written notice of termination and withdrawal. Both BANK and DEPOSITOR agree that among other items constituting default under this Agreement is a failure to maintain adequate collateral or adequate capital ratios (if applicable).

In the event that DEPOSITOR fails to comply with any of its promises in this Agreement, or if any of its representations are untrue or any of its warranties is breached, and DEPOSITOR does not cure such breach or default within 30 calendar days of DEPOSITOR receiving notice of such breach or default from BANK, then after expiration of such 30 calendar day cure period, BANK may terminate this Agreement by sending written notice to DEPOSITOR of BANK's decision to terminate. Upon receipt of such notice, DEPOSITOR shall make provisions for the immediate withdrawal of DEPOSITOR'S funds from BANK.

This Agreement may be amended in a writing executed by both the DEPOSITOR and the BANK.

13. Post-Termination/Expiration Obligations.

When the relationship of DEPOSITOR and BANK shall have ceased to exist, and when BANK shall have properly paid out all deposits of DEPOSITOR, it shall be the duty of DEPOSITOR to give the CUSTODIAN a certificate to that effect. Upon CUSTODIAN'S receipt of such certificate, the CUSTODIAN shall redeliver to BANK all collateral then in its possession belonging to BANK for the benefit of DEPOSITOR, and taking its receipt for such delivery. An order in writing presented to the CUSTODIAN by DEPOSITOR and a receipt for such collateral by BANK shall constitute a full and final release of the CUSTODIAN of all its duties and obligations under this Agreement, and the CUSTODIAN shall not have any liability of any kind whatsoever to both DEPOSITOR and BANK, except for any liability as set forth in Section 7 above where such liability arose while the collateral was in CUSTODIAN's control.

14. Representations and Warranties of the Parties.

The BANK represents and warrants that:

- I. (a) the BANK is the sole legal and actual owner of the securities or of a beneficial interest in the securities utilized to collateralize deposits;
- II. (b) other than the security interest granted to DEPOSITOR herein, no other security interest has been, nor will be, granted in the securities utilized to collateralize deposits;
- III. (c) BANK accounts are insured to the regulatory limits of the FDIC;
- IV. (d) this Agreement has been approved by the BANK's Board of Directors, and such approval is evidenced by a true and correct copy of the resolution of BANK's Board of Directors adopted at the meeting at which this Agreement was approved (attached to this Agreement and incorporated for all purposes), and further, such approval is reflected in the minutes of such meeting of the Board of Directors; and
- V. (e) this Agreement is an official record of the BANK, and has been, and will continue to be, an official record of the BANK from the date of its approval by the BANK's Board of Directors.

The DEPOSITOR represents, warrants and promises that:

- VI. (a) the DEPOSITOR has complied with all applicable law governing the selection of a depository bank, that DEPOSITOR has full power and authority to enter into this Agreement, the Agreement is a valid and binding agreement enforceable against the DEPOSITOR pursuant to its terms, and does not and will not violate any statute or regulation applicable to DEPOSITOR;
- VII. (b) all acts, conditions, and things required to exist, happen, or to be performed on DEPOSITOR'S part precedent to and in the execution and delivery of this Agreement exist or have happened or have been performed; and
- VIII. (c) DEPOSITOR will comply with the terms of any other agreements it may have with BANK in connection with this Agreement.

15. Incorporation of Request For Proposal and Response; Conflicting Provisions.

The DEPOSITOR'S Request for Proposal dated (**insert date**) ("RFP"), and the BANK'S response to the DEPOSITOR'S Request For Proposal, dated (**insert date**) ("Response"), are incorporated into this Agreement by reference. In the event of any conflicts between the RFP and the Response, the provisions of the RFP control. In the event of any conflicts between the Response and this Agreement regarding provisions and topics addressed in both documents, the provisions of this Agreement control. In the event any provisions and topics addressed in the Response and are not addressed in this Agreement, the Response controls.

16. Liability of the Parties.

The BANK's and DEPOSITOR'S duties and responsibilities to each other are limited as set forth in this Agreement, except with respect to any provisions of the law which cannot be varied or waived by agreement. **TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, NEITHER BANK NOR DEPOSITOR WILL BE LIABLE FOR ANY CONSEQUENTIAL, INCIDENTAL, INDIRECT, EXEMPLARY, SPECIAL, OR PUNITIVE DAMAGES (INCLUDING WITHOUT LIMITATION, LOSS OF REVENUE OR ANTICIPATED PROFITS), OR FOR ANY INDIRECT LOSS THAT THE OTHER PARTY MAY INCUR OR SUFFER IN CONNECTION WITH THE SERVICES PROVIDED HEREUNDER (EVEN IF THE SUCH PARTY HAS BEEN INFORMED OF THE POSSIBILITY OF SUCH DAMAGES), INCLUDING WITHOUT LIMITATION, ATTORNEYS' FEES.**

17. Invalidity; Severability.

If any clause or provision of this Agreement is for any reason held to be invalid, illegal, or unenforceable, such holding shall not affect the validity, legality, or enforceability of the remaining clauses or provisions of this

Agreement.

18. Governing Law; Venue.

This Agreement shall be construed in accordance with the substantive laws of the State of Texas, without regard to conflicts of law principles thereof. BANK and DEPOSITOR consent to the non-exclusive jurisdiction of a state or federal court situated in San Patricio County, Texas, in connection with any dispute arising from or relating to this Agreement. BANK and DEPOSITOR irrevocably waive, to the fullest extent permitted by applicable law, any objection which it may now or hereafter have to the laying of venue of any such proceeding brought in such a court and any claim that such proceeding brought in such a court has been brought in an inconvenient forum. BANK and DEPOSITORY each irrevocably waives any and all rights to trial by jury in any legal proceeding arising out of or relating to this Agreement.

19. Notices.

Any communication, notice, or demand to be given hereunder shall be duly given when delivered in writing or sent by telex or facsimile to a party at its address indicated below.

If to the DEPOSITOR:

If to BANK:

20. Security Measures.

BANK and DEPOSITOR agree to implement and follow mutually agreeable and adequate measures to protect the privacy and security of DEPOSITOR's transactions and information, including communications and information held by DEPOSITORY or BANK, or transmitted between DEPOSITOR and BANK. These measures may set forth in various BANK service-specific agreements or documentation, and shall address such issues as: (1) signature and identity verification; (2) fraud detection, prevention and reporting; (3) security codes and similar controls; (4) transmittal procedures and prior and proper authorization of telecopy, telephone, electronic and other transactions; (5) e-commerce issues such as encryption, e-mail security, and website security; and (6) computer and other access controls. BANK shall provide DEPOSITOR with at least 30 days prior written notice of any changes or amendments to the Bank's security procedures, as described in this Section 20 and elsewhere in this Agreement or other BANK service-specific agreements or documents, unless such changes or amendments must, in BANK'S sole opinion and discretion, be made: (i) immediately in order to guard against or mitigate a risk of fraud or criminal activity; or (ii) immediately to comply with an order or directive from law enforcement, court of law or any other regulatory agency with authority over the BANK's activities and operations.

21. Assignment and Binding Effect; Amendment.

The DEPOSITOR may not assign all or any part of its rights or obligations under the Agreement without the BANK'S prior express written consent, which may be withheld in the BANK'S sole discretion. The BANK may assign or delegate all or any part of its rights or obligations under the Agreement, including, without limitation, the performance of the services described herein. The Agreement will be binding on and inure to the benefit of the successors and permitted assigns of either party.

22. Third Party Service Providers.

In the normal course of its business, BANK may engage third party vendors or subcontractors to provide or assist in providing all or part of certain services. In the event that BANK engages such third party vendors or subcontractors, any contracts that BANK enters into with such third party vendors or subcontractors for the assistance in providing services under this Agreement shall contain necessary clauses requiring such third party vendors or subcontractors to comply with the provisions of this Agreement, including, but not limited to, levels of performance, service and data security. Any third party vendor or subcontractor used by BANK is an independent contractor and not the BANK'S agent. This Agreement may not be amended or modified in any manner except by written agreement executed by all of the parties.

23. Records, Reports and Audits.

BANK shall maintain separate, accurate and complete records relating to the DEPOSITOR'S funds, the pledged securities and all transactions relating to the pledged securities. BANK will also take reasonable steps to insure that the CUSTODIAN shall maintain separate, accurate and complete records relating to the pledged securities and all transactions relating to the pledged securities. DEPOSITOR and its representatives or agents shall have the right to examine and audit at any reasonable time upon 5 days prior written notice all records maintained pursuant to this Section 23.

IN WITNESS WHEREOF, the BANK and DEPOSITOR have caused this Agreement to be duly executed as of the _____ day of _____, 20__.

BANK:

ATTEST:

By: _____

Name: _____

Title: _____

Name: _____

Title: _____

DEPOSITOR accepts and agrees as the _____ day of _____, 20__.

DEPOSITOR:

INSERT DEPOSITOR NAME

ATTEST:

By: _____

Name: **NAME**

Title: **TITLE**

Name : _____

Title : _____

SECURITY AGREEMENT

THE _____ BANK, N.A. (the "Bank"), for valuable consideration, the receipt and sufficiency of which is acknowledged, grants a security interest in and a pledge and assignment of (a) any and all Eligible Collateral (as defined below) from time to time held by The Federal Reserve Bank and/or Federal Home Loan Bank (the "Custodian"), identified on the Custodian's books as held for the account of the Depositor or jointly for the account of the Bank and the Depositor, together with (b) the products and proceeds of the foregoing and any substitutions or replacements thereof, whenever acquired and wherever located (the "Collateral") to **INSERT NAME OF DEPOSITOR** (the "Depositor"), in order to secure the payment when due, of the Deposits (as defined below) pursuant to the depository agreement ("Depository Agreement") between the Bank and the Depositor, dated of even date with this security agreement (the "Agreement") :

1. Definitions. Except as otherwise expressly defined in this Agreement, all terms used herein which are defined in the Uniform Commercial Code as in effect from time to time in Texas (the "Code") have the same meaning as in the Code. All other terms capitalized but not defined herein or in the Code have the meanings assigned to them in the Depository Agreement.

"Account" shall mean the separate custodial account established with Custodian in the name of Bank and for the benefit and subject to the control of Depositor as secured party in accordance with this Agreement.

"Authorized Person" shall be any officer of Depositor or Bank, as the case may be, duly authorized to give Written Instructions on behalf of Depositor or Bank, respectively, such authorized persons for Depositor to be designated in a certificate substantially in the form of Exhibit B, attached hereto, as such exhibit may be amended from time to time, or as designated in such other forms as may be prescribed by the Bank.

"Book-Entry System" shall mean the Federal Reserve/Treasury Book Entry System for receiving and delivering U.S. Government Securities.

"Business Day" shall mean any day on which Custodian and Bank are open for business and on which the Book Entry System is open for business.

"Collateral Requirement" shall mean an amount of Securities with a Market Value equal to 102% of Uninsured Deposits; provided, however, to the extent that mortgage-backed securities (declining principal balance) are used as Eligible Collateral, "Collateral Requirement" shall mean an amount of Securities with a Market Value equal to 110% of Uninsured Deposits secured with such mortgage-backed securities.

"Deposits" shall mean all deposits by Depositor in Bank, including all accrued interest on such deposits, that are available for all uses generally permitted by Bank to Depositor for actually and finally collected funds under the Bank's account agreement or policies.

"Eligible Collateral" shall mean any Securities of the types enumerated in the Schedule of Eligible Collateral (which types are in compliance with the collateral policy adopted and approved by the governing body of Depositor) attached hereto as Exhibit A, as such exhibit may be amended from time to time pursuant to a written amendment signed by each of the parties to this Agreement, and any Proceeds of such Securities.

"Market Value" shall mean: (i) with respect to any Security held in the Account, the market value of such Security as made available to Bank or Custodian by a generally recognized source selected by the Bank or the Custodian, plus, if not reflected in the market value, any accrued interest on such Security, or, if such source does not make available a market value, the market value shall be as determined by Custodian or the Bank in its sole discretion based on information furnished to Custodian or Bank by one or more brokers or dealers; and (ii) with respect to any cash held in the Account, the face amount of such cash.

"Proceeds" shall mean any principal or interest payments or other distributions made in connection with Eligible Collateral and anything acquired upon the sale, lease, license, exchange, or other disposition of Eligible Collateral.

"Security" or "Securities" shall include, without limitation, any security or securities held in the Book-Entry System; common stock and other equity securities; bonds, debentures and other debt securities; notes, mortgages, or other obligations; and any instruments representing rights to receive, purchase, or subscribe for the same, or representing any other rights or interests in such security or securities.

"Trust Receipt" shall mean evidence of receipt, identification, and recording, including a written or electronically transmitted advice or confirmation of transaction or statement of account. Each advice or confirmation of transaction shall identify the specific securities which are the subject of the transaction. If available, statements of account may be provided by the Bank or the Custodian at least once each month and when reasonably requested by the Depositor, and must identify all Eligible Collateral in the Account and its Market Value.

"Uninsured Deposits" shall mean that portion of the daily ledger balance (amount of funds plus the amount of any accrued interest on the funds) of Depositor's Deposits with Bank which exceeds the standard maximum deposit insurance amount ("SMDIA") of the Federal Deposit Insurance Corporation ("FDIC").

"Written Instructions" shall mean written communications actually received by Bank or Custodian from an Authorized Person or from a person reasonably believed by Bank or Custodian to be an Authorized Person by a computer, telex, telecopier, or any other system whereby the receiver of such communications is able to verify by codes or otherwise with a reasonable degree of certainty the identity of the sender of such communication.

2. Security Requirement.

(a) The Bank, to secure the timely payment of Uninsured Deposits made by Depositor, has deposited with Custodian certain Securities as more fully described in the initial confirmation or Trust Receipt of such deposit delivered by Custodian to Bank and Depositor respectively. Pursuant to the Code, the Custodian shall act as a bailee or agent of the Depositor and, to the extent not inconsistent with such duties, shall hold Securities as a securities intermediary (as such term is defined in Chapter 8 of the Code) in accordance with the provisions of this Agreement, the Depository Agreement, and of any agreement entered into with the Custodian further governing the provision of Security by the Bank for Uninsured Deposits.

- (b) (i) To secure the timely payment of Uninsured Deposits made by Depositor with Bank, Bank agrees to deliver or cause to be delivered to Custodian for transfer to the Account, Eligible Collateral having a Market Value equal or greater than the Collateral Requirement.

(ii) If the Market Value of such Eligible Collateral on any Business Day is less than the Collateral Requirement for such day, the Bank shall be required to deliver additional Eligible Collateral having a Market Value equal to or greater than such deficiency as soon as possible but no later than the close of business of Custodian on the Business Day on which Bank determined such deficiency. If on any Business Day, the aggregate Market Value of the Eligible Collateral provided pursuant to this Agreement exceeds the Collateral Requirement for such day, Custodian shall, at the direction of Bank and with the approval of the Authorized Person acting on behalf of the Depositor, transfer from the Account to or for the benefit of Bank, Eligible Collateral having a Market Value no greater than such excess amount.

(iii) When additional Eligible Collateral is required to cover incremental Deposits, the Bank must receive the request for collateral one (1) Business Day prior to the Business Day the incremental Deposits are received, and the Bank shall be required to deliver additional Eligible Collateral having a Market Value equal to or greater than the deficiency on the Business Day the incremental Deposits are received.

(c) For any changes made to the Eligible Collateral held in the Account due to releases, substitutions, or additions of Eligible Collateral, the Custodian shall update its records of the Account accordingly as soon as possible and promptly issue a Trust Receipt to the Depositor and the Bank.

(d) The Bank shall be entitled to income on Securities held by the Custodian in the Account, and the Custodian may dispose of such income as directed by Bank without approval of the Depositor, to the extent such income is not needed to meet the Collateral Requirement.

3. Custody of Securities. The parties agree that all Securities held in the Account shall be treated as financial assets. For purposes of the Code, the security interest granted by Bank in the Eligible Collateral and Proceeds for the benefit of the Depositor is created, attaches, and is perfected for all purposes under Texas law from the time Custodian identifies the pledge of any Eligible Collateral or Proceeds to the Depositor and issues a Trust Receipt to the Depositor for such Eligible Collateral or Proceeds. The security interest of the Depositor in Securities and all Proceeds shall terminate upon the transfer of such Securities or Proceeds from the Account.

4. Delivery of Securities. Bank and Depositor agree that Securities and Proceeds delivered to or received by Custodian for deposit in the Account may be in the form of credits to the accounts of Custodian in the Book Entry System. Bank and Depositor authorize Custodian on a continuous and ongoing basis to deposit in the Book Entry System all Securities and Proceeds that may be deposited therein and to utilize the Book Entry System in connection with its performance under this Agreement. Securities and Proceeds credited to the Account and deposited in the Book Entry System will be represented in accounts that include only assets held by Custodian or its agent(s) for third parties, including but not limited to accounts in which assets are held in a fiduciary, agency, or representative capacity.

The Bank acknowledges that to the extent permitted by law, the records of the Bank and/or the Custodian with respect to the pledge of Eligible Collateral as described in this Agreement: (a) may be inspected by the Depositor or by the Texas Comptroller of Public Accounts (the "Comptroller"), at any time during regular business hours of the Bank or the Custodian; (b) such records may be subject to audit or inspection at any time pursuant to Sections 2257.025 and 2257.061 of the Texas Government Code, as amended; and (c) reports must be filed by the Custodian with the Comptroller when requested by the Comptroller.

5. Collection of Securities. If Depositor certifies in writing to Custodian that (a) Bank is in default under any underlying pledge or security agreement between Depositor and Bank, including the Depository Agreement and (b) Depositor has satisfied any notice or other requirement to which Depositor is subject pursuant to the Depository Agreement, then Depositor may give Custodian and any appointed receiver Written Instructions (x) to transfer the value of specific amounts and issues of Securities held in the Account and, if applicable, specific amounts of the Proceeds held in the Account which have not previously been released to Bank, up to the amount that Depositor has in its depository account with Bank as of the date the Bank default occurs, to designated accounts of Depositor and (y) to cease releasing to an account of Bank any Proceeds reflecting the interest and principal on Securities in the Account as provided in Section 2(d).

6. Representation and Warranties.

(a) Representations of Bank. Bank represents and warrants, which representations and warranties shall be deemed to be continuing, that:

(i) the Board of Directors of the Bank has authorized the Bank to enter into this Agreement, and such authorization is reflected in the approving resolution of the Bank's Board of Directors and in the minutes of the meeting of the Board of Directors at which this Agreement was approved, and this Agreement has been legally and validly entered into and is enforceable against Bank in accordance with its terms;

(ii) this Agreement and the pledge of Eligible Collateral under this Agreement do not violate or contravene the terms of the Bank's charter documents, by-laws, or any agreement or instrument binding on the Bank or its property, or any statute or regulation applicable to the Bank;

(iii) the Bank has entered into this Agreement and the Depository Agreement (A) in the ordinary course of business, (B) in good faith and on an arm's-length basis with the Depositor, (C) not in contemplation of bankruptcy or insolvency, and (D) without intent to hinder, delay, or defraud the Bank's creditors;

(iv) a copy of each of (A) this Agreement, (B) the Depository Agreement, and (C) the resolution of the Board of Directors of the Bank approving this Agreement and the minutes of the meeting of the Board of Directors at which this Agreement was approved, have been placed (and will be continuously maintained) in the official records of the Bank;

(v) the Bank is sole legal and actual owner of the Securities or of beneficial interests in Securities deposited in the Account, free of all security interests or other encumbrances, except the security interest created by this Agreement;

(vi) this Agreement was executed by an officer of Bank who was authorized by the Bank's Board of Directors to do so;

(vii) the Bank is a bank or trust company duly authorized to do business in the State of Texas; and

(viii) all acts, conditions, and things required to exist, happen, or to be performed on its part precedent to and in the execution and delivery of this Agreement by it exist or

have happened or have been performed.

(b) **Representations of Depositor.** Depositor represents and warrants, which representations and warranties shall be deemed to be continuing, that:

(i) this Agreement has been legally and validly entered into, has been approved by the Depositor's governing body, and does not and will not violate any statute or regulation applicable to it and is enforceable against Depositor in accordance with its terms;

(ii) the appointment of Custodian has been duly authorized by Depositor and this Agreement was executed by an officer of Depositor duly authorized to do so;

(iii) (A) all Securities identified on the Schedule of Eligible Collateral, attached hereto as Exhibit A, may be used to secure Depositor's Uninsured Deposits under applicable statutes and regulations, (B) the Collateral Requirement meets the requirements of such applicable statutes and regulations, (C) the governing board of Depositor has approved a collateral policy which authorizes all such Securities to be used as Eligible Collateral, and (D) such collateral policy complies with all applicable statutes and regulations;

(iv) it will not sell, transfer, assign, convey, pledge, or otherwise dispose in whole or in part its interests in or the rights with respect to any Securities deposited in the Account, or the Proceeds of such Securities, except as permitted in Section 5 of this Agreement;

(v) all acts, conditions, and things required to exist, happen, or to be performed on its part precedent to and in the execution and delivery of this Agreement exist or have happened or have been performed;

(vi) Depositor will comply with the terms of any other agreements it may have with the Bank in connection with this Agreement; and

(vii) In the event Depositor requests any financial services from the Bank other than depository services, the Depositor shall provide the Bank with a copy of the Depositor's current investment policy.

7. Continuing Agreement. This Agreement shall continue and remain in full force and effect and shall be binding upon the Bank and its successors and assigns until such time as (a) all Deposits have been paid in full to the Depositor or otherwise paid as instructed by the Depositor, and (b) the Depository Agreement is no longer in effect.

8. Rights and Remedies of the Depositor. The Depositor's rights and remedies with respect to the Collateral shall be those of a secured party under the Code and under any other applicable law, as the same may from time to time be in effect, in addition to those rights granted in this Agreement, in the Depository Agreement, and in any other agreement in effect between the Bank and the Depositor. The Depositor agrees to provide the Bank and the Custodian with reasonable notice of the sale, disposition, or other intended action subject to the provisions of this Agreement in connection with the Collateral, whether required by the Code or otherwise.

9. Application of Proceeds by the Depositor. In the event the Depositor requests that the

Custodian and receiver sell or otherwise dispose of the Collateral in the course of exercising the remedies provided for in Section 5 above and in the Depository Agreement, any amounts held, realized, or received by the Depositor pursuant to the provisions of this Agreement, including the proceeds of the sale, in whole or in part, of any of the Collateral, shall be applied by the Depositor first toward the payment of any costs and expenses incurred by the Depositor (a) in enforcing this Agreement, (b) in realizing on selling, disposing or protecting any Collateral and (c) in enforcing or collecting any Deposits, including attorneys' fees, and then toward payment of the Deposits in such order or manner as the Depositor may elect. Any Collateral remaining after such application and after payment to the Depositor of all the Deposits in full shall be paid or delivered to the Bank, its successors or assigns, or as a court of competent jurisdiction may direct.

10. Notices. Any communication, notice, or demand to be given under this Agreement shall be duly given when delivered in writing or sent by telex or facsimile to a party at its address indicated below.

If to the Depositor, at:

If to the Bank, at:

11. Miscellaneous.

(a) Updating Certificate of Authorized Persons. Depositor agrees to furnish to Bank a new and updated "Certificate of Authorized Persons" substantially in the form of Exhibit B, attached hereto, or in similar form as Bank may require, within a reasonable amount of time after there are additions or deletions to list of Authorized Persons authorized to act on behalf of the Depositor.

(b) Invalidity; Severability. If any clause or provision of this Agreement is for any reason held to be invalid, illegal or unenforceable, such holding shall not affect the validity, legality or enforceability of the remaining clauses or provisions of this Agreement.

(c) Amendment. This Agreement may not be amended or modified in any manner except by written agreement executed by all of the parties.

(d) Assignment and Binding Effect. The Depositor may not assign all or any part of its rights or obligations under the Agreement without the Bank's prior express written consent, which may be withheld in the Bank's sole discretion. The Bank may assign or delegate all or any part of its rights or obligations under the Agreement, including, without limitation, the performance of the services described herein. The Agreement will be binding on and inure to the benefit of the successors and permitted assigns of either party.

(e) Governing Law; Venue. This Agreement shall be construed in accordance with the substantive laws of the State of Texas, without regard to conflicts of law principles thereof. Bank and Depositor hereby consent to the non-exclusive jurisdiction of a state or federal court situated in San

Patricio County, Texas, in connection with any dispute arising hereunder. Bank and Depositor hereby irrevocably waive, to the fullest extent permitted by applicable law, any objection which it may now or hereafter have to the laying of venue of any such proceeding brought in such a court and any claim that such proceeding brought in such a court has been brought in an inconvenient forum. Bank and Depositor each hereby irrevocably waives any and all rights to trial by jury in any legal proceeding arising out of or relating to this Agreement.

(f) Liability of the Parties. The Bank's and Depositor's duties and responsibilities to each other are limited as set forth in this Agreement, except with respect to any provisions of the law which cannot be varied or waived by agreement. **TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, NEITHER BANK NOR DEPOSITOR WILL BE LIABLE FOR ANY CONSEQUENTIAL, INCIDENTAL, INDIRECT, EXEMPLARY, SPECIAL, OR PUNITIVE DAMAGES (INCLUDING WITHOUT LIMITATION, LOSS OF REVENUE OR ANTICIPATED PROFITS) OR FOR ANY INDIRECT LOSS THAT THE OTHER PARTY MAY INCUR OR SUFFER IN CONNECTION WITH THE SERVICES PROVIDED HEREUNDER (EVEN IF SUCH PARTY HAS BEEN INFORMED OF THE POSSIBILITY OF SUCH DAMAGES), INCLUDING WITHOUT LIMITATION, ATTORNEYS' FEES.**

IN WITNESS WHEREOF, the Bank and Depositor have caused this Agreement to be duly executed as of the _____ day of _____, 20__.

Bank

By _____

Name:

Title:

Dated: _____

DEPOSITOR ACCEPTS AND AGREES

as of _____, 20__

NAME

By _____

Name:

Title:

EXHIBIT A

Schedule of Eligible Collateral

Eligible Collateral

All funds on deposit under the provisions of this agreement shall be continuously secured in accordance with the Texas Public Funds Collateral Act, Chapter 2257 of the Texas Government Code.

The following securities are approved as collateral for **INSERT NAME OF DEPOSITOR** funds:

1. United States Treasury Notes, Bills, Bonds or obligations fully and unconditionally guaranteed as to principal and interest by the full faith and credit of the United States.
2. Obligations of the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, or the Federal National Mortgage Association.
3. Obligations of the Government National Mortgage Association.
4. Any obligation of an approved government agency which is considered to be an asset-backed, mortgage-backed, or pooled security.
5. Direct obligations of this State or its agencies or instrumentalities.

**EXHIBIT B
 CERTIFICATE OF AUTHORIZED PERSONS
 (Depositor)**

The undersigned hereby certifies that he/she is the duly elected and acting _____ of _____ (the "Depositor"), and further certifies that the following officers or employees of Depositor have been duly authorized in conformity with the approval of the Depositor's governing body to deliver Written Instructions to the [name of custodian] ("Custodian") pursuant to the Security Agreement between Depositor and the Bank dated _____, and that the signatures appearing opposite their names are true and correct:

Name	Title	Signature

This certificate supersedes any certificate of authorized individuals you may currently have on file.

[corporate
 seal]

Title:

Date:

REQUIRED ATTACHMENTS (Please attach in the order requested):

- 1) Monthly account analysis statement that will be provided to the City, and indicate any capability to provide the information electronically.
- 2) Schedule and detailed explanation of funds availability, showing both time and day of availability, and specify the institution location to which the availability is applicable.
- 3) Explanation of the institutions' policy and methodology used in setting rates paid on interest bearing accounts and account analysis earnings credit. Indicate if they are based on a market rate such as T-Bill discount or yield rate, or the federal funds rate, etc., and when the rates are changed. Also, please provide a historical schedule of rates paid.
- 4) Custody Agreement clearly stating that the Custodian is instructed to release the collateralized securities to the City if the City has determined that the selected bank has failed to pay on any accounts, including but not limited to matured investments in Certificates of Deposit, or the City has determined that the City's funds are in jeopardy for any reason, including but not limited to involuntary closure or change in ownership. The Custody Agreement shall have signatories and be executed by the Custodian, the selected bank, and the City.
- 5) Latest annual financial statements, the most recent quarterly F.D.I.C. call reports, and the Uniform Bank Performance Report for the latest fiscal year end.
- 6) Information describing the institution's security measures to prevent fraud and unauthorized electronic and non-electronic transfers, and protect the integrity of computer banking services and internal computer systems.
- 7) Technology specifications for use of all proposed electronic systems and services.
- 8) Sample of monthly Safekeeping Account statement.

EXHIBIT 3 – The City of Ingleside Investment Policy

CITY OF INGLESIDE, TEXAS
INVESTMENT POLICY

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I. INVESTMENT SCOPE

General Statement

This policy (this "Policy") serves to satisfy the statutory requirement of the Public Funds Investment Act, as amended, Texas Government Code Chapter 2256, as amended (the "Act"), to define and adopt a formal written investment policy for the City of Ingleside, Texas (the "City"). The City shall be authorized to invest its funds pursuant to the provisions of the Act and this Policy or, upon obtaining the prior approval of the City Council of the City (the "City Council"), any other applicable law.

Funds Included

This Policy applies to all City funds under the direct control of the City, at the present time and any funds to be received in the fixture and any other funds held in custody by the City, unless expressly prohibited by law or unless it is in contravention of any depository contract between the City and any depository bank.

The City funds that are entrusted to the City Council for investment pursuant to this Policy are divided into the following portfolios based on the source of funds:

- (1) the operating account portfolio that consists of funds from the general fund, the utility fund, and all other miscellaneous funds;
- (2) the agency funds portfolio, which consists of all agency funds; and
- (3) special Revenue, Special Assessment, and all other City funds.

Funds Excluded

This Policy shall not be applicable to any funds on deposit in any bond account, reserve account, or capital improvement construction account. The provisions of the ordinances authorizing the issuance of these debt obligations and the provisions of the Internal Revenue Code of 1986, as amended control the investment of funds on deposit in these accounts.

II. INVESTMENT OBJECTIVES

General Statement

Funds of the City will be invested in accordance with the Act, this Policy, written investment strategy, and written administrative procedures to be developed by the City Manager (or his designee, for purposes of acting under this Policy). The City's investment portfolio shall be managed in a manner to attain the maximum rate of return allowed through prudent and legal investing of City funds while preserving and protecting capital in the overall portfolio.

Safety

The primary objective of the City for all portfolios and funds is to ensure the safety of the principal. All investment transactions shall first seek to avoid capital losses.

Liquidity

The City's investment portfolio must be structured in a manner that will provide the liquidity necessary to meet all operating requirements which might reasonably be anticipated, and to pay obligations as they become due.

Diversification

The policy of the City, except when investing with the City's depository bank or in U.S. Treasury Bills, Bonds or Notes, will be to diversify its investment portfolio when investing in certificates of deposit of other banks and savings and loans domiciled in Texas, repurchase agreements, U.S. agencies securities, and other investment instruments provided for by law. The City's portfolio shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of investments. Investments of the City shall always be selected to provide stability of income and reasonable liquidity. Liquidity is defined as the ability to sell an investment at reasonable cost under adverse market conditions.

In establishing specific diversification strategies, the following general policies and constraints shall apply:

- (1) Portfolio maturities shall be staggered in a way that avoids undue concentration of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity.
- (2) Liquidity shall be maintained through practices that ensure that the next disbursement date and payroll date are covered through current revenues, maturing investments, or marketable securities.
- (3) Risks of market price volatility shall be controlled through maturity diversification.

Yield

It will be the objective of the City to earn the maximum rate of return allowed on its investments within the constraints imposed by its safety and liquidity objectives, and the applicable law governing the investment of public funds.

The City must invest its portfolios in eligible investments that yield the highest possible rate of return while providing the necessary protection of the principal. The City seeks to optimize return on investments in all portfolios. The average minimum rate of return for the entire portfolio, excluding funds needed for current obligations, must be at least equal to a no default risk rate of return indicator, such as the return on the three-month Treasury bill. If funds are subject to yield restrictions due to federal arbitrage regulations, those funds are excluded from the yield calculation. The City may only invest in a particular eligible investment if its yields are equal to or greater than the bond equivalent yield on United States Treasury

obligations of comparable maturity. The City Council may establish additional appropriate criteria for investment performance measures.

Maturity

Portfolio maturities will be staggered to achieve the highest return of interest but at the same time provide for the necessary liquidity to meet the City's cash needs.

City funds shall be invested only in investments whose maturities do not exceed five (5) years at the time of purchase, except, if permissible, funds accumulated for debt service payments, bond fund reserve accounts, and registry trust funds. In addition, the average maturity of the overall portfolio, excluding those investments held for future major capital expenditures and registry trust funds, shall not exceed five (5) years.

Quality and Capability of Investment Management

It is the City's policy to provide for periodic training in investments as required by the Act for the City Manager (or his designee) through courses and seminars offered by professional organizations and associations in order to insure the quality and capability of the City Manager (or his designee) in making investment decisions. The finance director and the City Manager (or his designee) of the City shall:

- (1) attend at least one training session from the Texas Municipal League or other independent source approved by the City Council of the City or the Investment Advisory Committee advising the City Manager (or his designee) as provided for in this Policy and containing at least ten (10) hours of instruction relating to the finance director's officer's responsibilities under this Policy within twelve (12) months after taking office or assuming duties; and
- (2) attend an investment training session not less than once in a two-year period and receive not less than ten (10) hours of instruction relating to investment responsibilities under this Policy from the Texas Municipal League or other independent source approved by the City Council of the City or the Investment Advisory Committee advising the City Manager (or his designee) as provided for in this Policy.

Training under this Policy must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Act.

Public Trust.

It will be the objective of the City to act responsibly as custodians of the public trust.

Portfolio Management

Under this Policy, all investments will be made with the intent of pursuing, at the time of purchase, the best rate of return on securities held until maturity, and not with the intent of speculative trading. However, securities may be sold before maturity if market conditions present an opportunity for the City to benefit from this transaction.

Investment Strategy

As a part of this Policy, the City shall adopt a separate written investment strategy for each of the funds or groups of funds under its control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities in order of importance:

- (1) understanding of the suitability of the investment relative to the financial requirements of the City;
- (2) preservation and safety of principal;

- (3) liquidity;
- (4) marketability of the investment if the need arises to liquidate the investment before maturity;
- (5) diversification of the investment portfolio; and
- (6) yield.

III. INVESTMENT RESPONSIBILITY AND CONTROL

City's Investment Delegate

In accordance with Section 2256.005 of the Act, the City Manager (or his designee) is designated as the officer responsible for the investment of the City's funds. The City Manager (or his designee) is the primary manager of City investment portfolios and shall develop and maintain written administrative procedures for the operation of the investment program, consistent with this Policy, including the following:

- (1) summarizing the economic and market analysis;
- (2) forecasting available cash for investments;
- (3) formulating strategies for asset mix, investment instruments, maturities, and target yields;
- (4) monitoring performance against the current investment strategy and evaluating reasons for variances;
- (5) reporting portfolios performance for the previous quarter to the City Council; and
- (6) revising the investment strategy based on recommendations by the Investment Advisory Committee

Selecting and Processing Investments

The City Manager (or his designee) shall review the composition of the current portfolio and determine whether the securities under consideration maintain the portfolio within the guidelines established by this Policy, subchapter A of the Act, and all federal, state, and local statutes, rules or regulations. The City Manager (or his designee) shall approve the wire transfer form authorizing the transfer of funds for a specific investment transaction.

Documenting Investments and Providing Details

The City Manager (or his designee) shall retain documentation of all investment transactions, including any bond swaps. The City Manager (or his designee) shall provide information and supporting documentation for all investment transactions for entry in the General Ledger. The City Manager (or his designee) shall utilize information and back-up documentation on all investment transactions to ensure accurate calculation of cash position and accurate posting to appropriate accounts.

Developing Cash Flow Projections for All Portfolios

The City Manager (or his designee) shall analyze prior period data and develop and amend cash flow projections of the City's cash requirements. The City Manager (or his designee) shall use cash flow projections to match assets and liabilities in order to maximize the return on investments.

Determining Cash Available for Investment

The City Manager (or his designee) shall determine the amount of City funds available for investment each business day. All funds that can be legally invested and that are not required for that day's disbursements are considered funds available for investment.

Monitoring Investment Performance

The City Manager (or his designee) must routinely perform market and economic analysis to forecast probable market conditions for the investment period by assembling and analyzing current and trend data to develop and plan investment strategy. This analysis uses information obtained from investment advisors, brokers, and investment industry publications.

The City Manager (or his designee) shall monitor the current and expected yield curves for interest rate movements. When interest rates are expected to decline, maturity ranges shall be extended within the portfolio and the constraints of this Policy. When interest rates are expected to increase, maturity ranges shall be shortened. The City Manager (or his designee) shall monitor yield spreads between various government agency issues and United States notes and bonds to determine the best value. The City Manager (or his designee) shall summarize economic and market trend information and present recommendations for investments strategy based on economic and market conditions to the City Council and the Investment Advisory Committee.

Reconciling Investment Records and General Ledger

The City Manager (or his designee) shall prepare a monthly report that includes information such as identifying investments at par value, identifying CUSIP number, disclosing the premium or discount, and the interest purchased for the City's investments. The report shall include monthly and year-to-date interest accruals and amortization/accretion of premium/discount. This report should reconcile to the investment accounts in the General Ledger.

Allocating Interest Revenue

The City Manager (or his designee) shall allocate the interest revenue earned from investments proportionately to all accounts that participate in the investment function.

Providing Revenue Estimates for All Portfolios

The City Manager (or his designee) shall provide an estimate of the investment revenue for the annual budget by August 1 of each year.

Prudence

Investments of the City shall be made with judgment and the exercise of due care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital, as well as the probable income to be derived for the City. Unless authorized by law, a person may not deposit, withdraw, transfer, or manage the funds of the City in any other manner.

Business Relationships of City Manager (or his Designee)

The City Manager (or his designee) must file a statement with the City Council and the Texas Ethics Commission of any personal business relationship that the City Manager (or his designee) may have with a business organization as defined in the Act offering to engage in an

investment transaction with the City. A personal business relationship is defined by Section 2256.005 of the Act to exist if

- (1) the investment officer owns 10% or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
- (2) funds received by the investment officer from the business organization exceed 10% of the investment officer's gross income for the previous year; or
- (3) the investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

Liability of City Manager (or his Designee)

The City Manager (or his designee) is not responsible for any loss of the City funds through the failure or negligence of a depository bank or other financial or investment institution as described in Article VI of this Policy.

IV. INVESTMENT REPORTING

Quarterly Report

The City Manager (or his designee) will continually monitor and evaluate the City's investments and report quarterly to the City Council as provided in Section 2256.023 of the Act. The report must

- (1) describe in detail the investment position of the City on the date of the report;
- (2) be prepared jointly by all investment officers of the City;
- (3) be signed by each investment officer of the City;
- (4) contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the
 - (a) beginning market value for the reporting period;
 - (b) additions and changes to the market value during the period;
 - (c) ending market value; for the period; and
 - (d) fully accrued interest for the reporting period;
- (5) state the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;
- (6) state the maturity date of each separately invested asset that has a maturity date;
- (7) state the account or fund or pooled group fund in the City for which each individual investment was acquired; and
- (8) state the compliance of the investment portfolio of the City as it relates to
 - (a) the investment strategy expressed in the City's investment policy; and

- (b) relevant provisions of the Act.

The report shall be presented not less than quarterly to the City Council and (if he is not the investment officer preparing the report) the City Manager of the City within a reasonable time after the end of the period.

If the City invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers under this section shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the City Council by that auditor.

Investment Advisory Committee

An Investment Advisory Committee composed of the City Manager (or his designee) (as Chair), the Mayor, and one member of the City Council designated from time to time by the City Council will meet no less than once semiannually to review the last two quarterly reports prepared by the City Manager (or his designee) and review the Investment Objectives, Investment Responsibility and Control, and Investment Instruments as established by this Policy and the Act.

Annual Review

This Policy and investment strategy will be reviewed by City Council annually. The City Council shall adopt a written rule, order, ordinance, or resolution stating that it has reviewed the Policy and investment strategy and shall record in the order, ordinance or resolution any changes made to either the Policy or investment strategy.

Notification of Investment Changes or Defaults

It shall be the duty of the City Manager (or his designee) to notify the City Council of any significant changes in current investment methods and procedures prior to their implementation and to immediately notify the City Council in the event of a default or nonpayment of any investment acquired with City funds. In addition, the City Council in its annual review of the Policy shall adopt any order, ordinance, or resolution establishing its annual review and record any changes to this Policy or investment strategies.

Compliance Audit

The City, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to this Policy.

V. INVESTMENT INSTRUMENTS

Authorized Investment Instruments

The City Manager (or his designee) shall use any or all of the following authorized investment instruments consistent with governing law:

- (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities;
- (2) direct obligations of the State of Texas or its agencies and

instrumentalities;

- (3) 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 of instrumentality of the United States;
- (4) other obligations, the principal of 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;
- (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent at the time of purchase;
- (6) certificates of deposit issued by a state or national bank domiciled in this State, a savings bank domiciled in this State or a state or federal credit union domiciled in this State that are
 - (A) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; or
 - (B) secured by obligations that are described by subdivisions (1)-(6) of this subsection, including mortgage-backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates or in any other manner and amount provided by law for deposits of the City; or
 - (C) secured in any other manner and amount provided by law for deposits of the City;
- (7) prime domestic bankers' acceptances if it
 - (A) has stated maturity of 270 days or fewer from the date of its issuance;
 - (B) will be, in accordance with its terms, liquidated in full at maturity;
 - (C) is eligible for collateral for borrowing from a Federal Reserve Bank; and
 - (D) is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than "A-1" or "P-1" or an equivalent rating by at least one nationally recognized credit rating agency;
- (8) commercial paper if it
 - (A) has a stated maturity of 270 days or less from the date of its issuance; and.
 - (B) is rated not less than "A-1 ", "P-1 ", or the equivalent by at least
 - (1) two (2) nationally recognized credit rating agencies; or

- (2) one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof;
- (9) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by subdivision (1) of this subsection, pledged to the City, held in the City's name, and deposited at the time the investment is made with a third party selected and approved by the City, and placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this State;
- (10) a guaranteed investment contract is an authorized investment for bond proceeds under the Act if the guaranteed investment contract
 - (A) has a defined termination date;
 - (B) is secured by obligations described by subdivision (1) in an amount at least equal to the amount of bond proceeds invested under the contract; and
 - (C) is pledged to the City and deposited with the City or with a third party selected and approved by the City; and
- (11) bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested under the Act in a guaranteed investment contract with a term of longer than five (5) years from date of issuance of the bonds; to be eligible as an authorized investment
 - (A) the City Council must specifically authorize guaranteed investment contracts as an eligible investment in the ordinance or resolution authorizing the issuance of bonds;
 - (B) the City must receive bids from at least three (3) separate providers with no material financial interest in the bonds from which proceeds were received;
 - (C) the City must: purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;
 - (D) the price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and
 - (E) the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

In addition to the investments described by items (1) - (11) above, the City may invest funds under its control in eligible public funds investment pools as permitted under the Act. A public funds investment pool must be continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days.

In addition to the investments described by items (1) - (11) above, the City may, in accordance with the Act, purchase, sell, and invest funds, after receiving a prospectus and other

information required by the SEC, under its control in an SEC-regulated, no-load money market mutual fund with a dollar-weighted average stated maturity of 90 days or less and whose investment objectives include seeking to maintain a stable net asset value of \$1 per share or a no-load mutual fund which is registered with the SEC, has an average weighted maturity of less than two (2) years, is invested exclusively in obligations approved by the Act, is continuously rated as investment quality by at least one nationally recognized investment rating firm of not Less than "AAA" or its equivalent and conforms to the requirements set forth in Sections (b) and (c) of the Act relating to the eligibility of investment pools to receive and invest funds of the City. The City shall not (i) invest in the aggregate more than 15% of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service in mutual funds as described by the Act; (ii) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described by the Act; or (iii) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service in any one mutual fund described by the Act in an amount that exceeds 10% of the total assets of the mutual fund.

VI. INVESTMENT INSTITUTIONS

Investment Institutions Defined

The City Manager (or his designee) shall invest City funds with any or all of the following institutions or groups consistent with federal and state law and the current depository bank contract:

- (1) the City's Depository bank;
- (2) other state or national banks domiciled in Texas that are insured by FDIC;
- (3) savings and loan associations domiciled in Texas that are insured by FDIC;
- (4) public funds investment pool; or
- (5) government securities brokers and dealers acceptable to the City.

Selection of Bank and Securities Dealers

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must be given a copy of this Policy and must supply the City Manager (or his designee) with the information specified below. First, a broker/dealer must submit audited financial statements for the financial institution or broker/dealer. Second, a broker/dealer must provide evidence of appropriate registration by the qualified representative of the business organization as such terms are defined in the Act. For bank dealers, this requires a statement from a senior bank official that the bank dealer is appropriately registered with its primary regulatory agency (the Office of the Comptroller of the Currency for National Banks) as a government securities dealer, municipal securities dealer, or both. For a securities firm, this requires a statement from a senior official that the firm is registered with the National Association of Securities Dealers. Third, a broker/dealer must provide a completed Broker/Dealer questionnaire furnished by the City Manager (or his designee). Finally, a broker/dealer must deliver a written statement, acceptable to the City, by the qualified representative, offering to engage in an investment transaction with the City, that they have received and thoroughly reviewed this Policy and acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the City and the business organization that are not authorized by this Policy and other investment policies, 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. The City Manager (or his designee) will recommend both primary and secondary securities dealers to the City Council for final approval. The City Manager (or his designee) may not acquire or otherwise obtain any authorized investment described in this Policy from a person who has not delivered to the City the written statement required in this section.

The City Council or the designated Investment Advisory Committee member shall, at

least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

VII. INVESTMENT COLLATERAL AND SAFEKEEPING

Collateral or Insurance for Deposits

The City Manager (or his designee) shall insure that all deposited and invested City funds are, to the extent required, fully collateralized or insured consistent with federal and state law and the current bank depository contract in one or more of the following manners:

- (1) FDIC insurance coverage;
- (2) obligations of the United States or its agencies and instrumentalities;
- (3) direct obligations of the State of Texas or its agencies;
- (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities; or
- (5) any other manner allowed by law.

Safekeeping

All purchased securities shall be held in safekeeping by the City, or a City account in a third party financial institution, or with a Federal Reserve Bank.

All certificates of deposit, insured by FDIC, purchased outside the depository bank shall be held in safekeeping by either the City or a City account in a third party financial institution. All pledged securities by the depository bank shall be held in safekeeping by the City, or a City account in a third party financial institution, or with a Federal Reserve Bank.

All certificates of deposit, pledged by the depository bank shall be held in custody of a Federal Reserve Bank for safekeeping, be the subject of a valid pledge agreement designating the City as the beneficiary of the pledge agreement; be insured by the FDIC; be described in detail by a safekeeping receipt issued to the City by the Federal Reserve Bank having custody of the certificates; and be issued with the City as registered owner.

Delivery vs. Payment

It is the policy of the City that all transactions, except investment pool funds and mutual funds, shall be purchased using the delivery vs. payment method through the Federal Reserve System. By so doing, City funds shall not be released until the City has received, through the Federal Reserve wire, the securities purchased.

Adopted: August 12, 2008

Ratified: March 26, 2013 (without change)

TO DO

Calendar and dates

Credit and Debit Card transactions

Two year History of fees and earnings credit

Sample score sheet?

See P. Pierce email comments of 10/07/2010

Depository and Security Agreements attached.