



December 21, 2018

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Mayor Pro Tempore

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Councilmember

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Councilmember

CITY MANAGER
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REQUEST FOR PROPOSAL FOR BANKING SERVICES

The City of Goleta is requesting proposals from interested qualified financial institutions to submit proposals to provide banking services. The City of Goleta is requesting proposals to assure that the City is receiving the optimal level of automated banking services at a competitive price. A Request for Proposals (RFP), which includes instructions for its completion, is attached. All financial institutions qualified under the terms and conditions contained in this document are respectively requested to submit proposals.

Respondents to this RFP shall submit completed proposals in a sealed envelope, clearly marked with **“Proposal for Banking Services - Banking RFP”** and the name of the financial institution submitting the proposal.

To be considered, an original, two (2) copies, and an electronic version of the proposal must be received by **5:00 p.m. on Thursday, January 31, 2019**. The electronic version must be emailed to financegroup@cityofgoleta and hard copies mailed to the following address:

City of Goleta
Attention: Finance
130 Cremona Drive, Suite B
Goleta, CA 93117

If you have any questions about the RFP, please submit your inquiries by e-mail to Luke Rioux, Finance Director at lrioux@cityofgoleta.org or call (805) 562-5508, Monday through Friday.



REQUEST FOR PROPOSAL

FOR

BANKING SERVICES

DATE ISSUED: DECEMBER 21, 2018

**Luke Rioux
Finance Director
City of Goleta
130 Cremona Drive, Suite B
Goleta, CA 93117**

DUE DATE: THURSDAY, JANUARY 31, 2019 BY 5:00 P.M.

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INTRODUCTION

The City of Goleta (“the City”) is requesting proposals from eligible and qualified banking institutions for its primary banking services. The bank must be a qualified depository of public funds, as defined by Section 53635.2 of the California Government Code to perform its obligation under this proposal in compliance with all applicable federal and state laws, regulations, statutes and policies. The bank must also be a member of the Federal Reserve System. The City’s goal is to enter into a long-term relationship to obtain required banking services in the most efficient and cost-effective manner available. All proposals must be received by the City at 130 Cremona Drive, Suite B, Goleta, California 93117, **no later than 5:00 p.m. on January 31, 2019. Late proposals will not be considered.** An original signed version and two copies, sealed, and clearly marked “**Proposal for Banking Services - Banking RFP**”, must be submitted. One proposal must be sent electronically to financegroup@cityofgoleta.org.

Proposals must be responsive to City’s request. The City shall determine the most responsive and qualified financial institution providing the best service at the most reasonable cost. Cost alone shall not be the determinative factor.

The request for proposals does not obligate the City to award a contract or complete the project, and the City reserves the right to cancel the solicitation if deemed in its best interest.

BACKGROUND

The City of Goleta is located on the south coast of Santa Barbara County, approximately 8 miles west of the City of Santa Barbara. The City is suburban in character and encompasses about 7.9 square miles of territory and has a population of approximately 30,000. The City’s fiscal year begins on July 1 and ends on June 30.

The City of Goleta was incorporated on February 2, 2002 as a general law city which operates under the council/manager form of government. Goleta, which is not a full-service city, presently has six administrative departments. These include General Government, Library, Finance, Public Works, Planning and Environmental Review, and Neighborhood Services and Public Safety. Police services are provided by contract with the Santa Barbara County Sheriff’s Department. Fire protection services are provided by the Santa Barbara County Fire Department, which is fully supported by tax revenues from a special district. Water and sewer services are also provided by independent special districts, with no costs flowing through the City of Goleta.

The City of Goleta’s Operating & Capital Improvement Projects budget in FY 2018/19 is approximately \$78 million for all funds combined. The City currently has a total of approximately \$50 million invested in LAIF and in a money market account. The City intends to consider, in accordance with the City’s investment policy, other possible investments with the financial institution. The accounting and financial reporting functions of the City are centralized in the Finance Department.

More information can be found on the City of Goleta's website www.cityofgoleta.org

Current Banking Structure

The City currently maintains a primary commercial banking relationship with one depository institution. It is the City's preference to maintain all commercial banking services with one financial institution to maximize cash flow and minimize administrative costs.

The City maintains three types of accounts with its banking institution, which includes a general checking account, payroll account and money market deposit account. Our general deposit checking account is used for deposit, merchant card deposit, remote check deposit, disbursement, positive pay, payroll transfers and money transfer activities. In addition, this account is used for all incoming and outgoing ACH transactions, as well as incoming and outgoing wires, and State of California Local Agency Investment Fund (LAIF) transfers. Our payroll account is used to process payroll bi-weekly and related transfers. Our money market demand account is used daily as in investment vehicle to maintain safety and liquidity and maximize interest earnings.

OBJECTIVE

The City desires to select a reputable financial institution to manage its deposits, provide core banking services and make available certain other related financial services to the City for its benefit and the benefit of the citizens it serves.

The purpose of this process is to identify the financial institution that can provide maximum services and competitive pricing. It is the intent of the City to award a contract for an initial five (5) year period, with the option to renew it for additional one five-year period at the sole discretion of the City. The City desires fixed pricing for the five-year contract period. Prices in subsequent years shall be negotiated based on satisfactory customer service.

MANDATORY MINIMUM QUALIFICATIONS

To be considered for selection, proposing financial institutions must have at least the following qualifications:

- a) Have a physical full-service banking facility within the Goleta city limits;
- b) Be a Federal or State of California chartered financial institution;
- c) Be a Federal Deposit Insurance Corporation (FDIC) insured institution;
- d) Be a qualified depository for public funds;
- e) Be capable of providing the services sought by the City as identified below; and
- f) Comply with all requirements specified in this RFP.

REQUIRED BANKING SERVICES

The services required to accommodate the City's current and anticipated banking needs are outlined as follows:

1. **Account Executive:** An account executive must be assigned to the account to coordinate the account services and expedite the solution of any problem. A trained and competent backup for the account executive, familiar with the account, should be assigned in the proposal. Stipulate the name and a brief biography of the account executive and the backup to be assigned the City's account.
2. **Online Services:** The City must have the ability and availability to manage all accounts and bank services online. The online banking services should include account reconciliation, check image retrieval, account analysis, positive pay abilities, and on-line transactions and statements.
3. **Accounts:** The City currently utilizes three (3) demand accounts: 1) the primary checking account 2) a zero-balance payroll checking account and 3) an interest bearing money market deposit account. The financial institution must be able to accommodate existing accounts and furnish the City with additional accounts as needed.
4. **Monthly Statements and Account Analysis:**
 - a) The financial institution must provide the City, within ten (10) working days after the last calendar day of the month, a monthly account statement for all City accounts and have available copies of both the front and back sides of cleared items.
 - b) The financial institution must provide the City with an account analysis within twenty (20) days after the last calendar day of the month. The analysis must detail all activity levels and charges for all accounts covered by the contract with the financial institution.
5. **Standard Deposit Services:** The financial institution should guarantee immediate credit of all incoming wire transfers and U.S. Treasury checks upon receipt and all other checks based on the financial institution's published availability schedule. The ability to deposit checks remotely is a required function. The financial institution should specify in their proposal their deposit requirements. Please see Attachment B, Item D.
6. **Wire Transfers, ACH Transactions, EFT and other transfers:** The financial institution must have the capability to accommodate a wide range of electronic payments, money transfers, wires and ACH transactions for the transfer of funds to and from the City's accounts. These items include but are not limited to:

- a) **Wire Transfers:** The City currently generates numerous incoming and outgoing wires and transfers each month. The City requires adequate security and provisions and procedures. This proposal should include a copy of your standard wire transfer procedures and wire transfer agreement, and ability for online wire entry. Please see Attachment B, Item C.
- b) **Federal and State Payroll Tax Payments:** The City participates in the Federal Electronic Fund Transfer Payment System.
- c) **Direct Deposit for Payroll:**
 - i. The City utilizes direct deposit services for its payroll on a bi-weekly basis according to the Automated Clearing House (ACH) rules and regulations. On an average payroll, 90 employees receive direct deposit. Employees have the option to transfer to multiple bank accounts. The financial institution should be able to receive a direct transmission with all payroll information. Transmission will be delivered by 3:00 p.m. two business days prior to payday. Deposits must be made into the employees' account(s) by 6:00 a.m. on payday. If needed, the financial institution shall furnish pass-through software to aid in the ACH payroll file creation at no cost to the City. Any deviation from these time limits must be stated in the proposal. Please see Attachment B, Item C.
 - ii. Transmit debit entries initiated by the City under ACH rules. The financial institution shall provide software or another means to allow the City to change and adjust ACH information prior to transmission to the financial institution. Upon timely and proper notification by the City, the financial institution shall manually adjust or stop payment or other adjusting entries.
- 7. **Overdraft Protection:** Every effort will be made to eliminate overdraft situations on the account. However, in case this situation does arise, the proposal should include any and all financial institution policies regarding overdraft charges or handling procedures including associated costs. Please see Attachment B, Item E.
- 8. **NSF/Returned items:** The financial institution should redeposit returned items due to "non-sufficient funds or "return to maker". Items returned a second time should be forwarded to the City on a daily basis and should indicate any applicable returned check charges. Please see Attachment B, Item F.
- 9. **Supply Services:** Provide endorsement stamps and sufficient two-part deposit slips with financial institution name and account number for the primary checking account. Scanners for remote depositing services should also be provided as mentioned above. Please use Attachment A to indicate if charges will apply.

10. Bank Balances: Collateralizing all collected balance, in excess of balances insured by the FDIC, pursuant to all applicable sections of the California Government Code. Please detail the bank's procedure for collateralizing the deposit of public funds, bank department that is responsible for tracking deposits and monitoring collateral, and statement as to the frequency of reporting to the State Treasurer's Office.

11. Investment/Other Services: The City is interested in obtaining information on investment products and rates, subject to the City's investment policy, as provided in Attachment C, as well as any other products or services that would benefit the City, such as courier services. These products or services are not required but will be evaluated in terms of availability, feasibility, service levels, service providers and cost. The City will make its determination after receipt of proposals as to whether a product or service will be used. If the product or service is accepted later in the contract period, the services and charges stipulated in the proposal will be applied.

PROPOSAL SUBMISSION REQUIREMENTS

The financial institution shall be responsible for preparing an effective, clear, and concise proposal. Proposals must contain the following information:

- A. Cover Page:** One printed page maximum. It should include the name of the proposing financial institution and its principal business address where the relationship will be managed.
- B. Executive Summary of Your Proposal:** Two printed pages maximum. Introducing the company and the Account Executive. Please include a statement of the financial institution's understanding of the service to be performed and a positive commitment to provide the service as indicated in this RFP. The letter should be addressed to Luke Rioux, Finance Director, City of Goleta, 130 Cremona Drive, Suite B, Goleta, CA 93117.
- C. Insurance:** A statement that the financial institution can meet the City's mandatory insurance requirements: The City requires Commercial General Liability insurance with limits of not less than \$1,000,000 per occurrence and \$2,000,000 aggregate, Professional Liability Insurance with limits of not less than \$1,000,000 per occurrence if available to a professional engaged in bank's regular course of business, Automobile Liability insurance with a minimum limit of \$1,000,000 per accident, and Workers Compensation Insurance as required by the State of California, including statutory limits for worker's compensation and Employer's Liability limit of \$1,000,000 per accident or disease. The City reserves the right to establish that these insurance requirements be met and complied with prior to any contractual agreement is entered into. Failure to comply could result in non-award of the contract.

D. Financial Institution Information: The financial institution must provide all of the following as part of the proposal:

- i. Audited Financial Statements for the most recent fiscal year
- ii. A copy of the current FDIC call report
- iii. Company ownership information;
- iv. Describe the bank's experience in providing similar service for other governmental agencies, specifically local government agencies located in California. Please include the number of public agency clients, the dollar amount of public funds on deposit, the types of services offer, the bank's knowledge of and adherence to the California Government Code.
- v. Provide a statement regarding any mergers or acquisitions that the financial institution is currently committed to and the expected impact on the services requested in this RFP.

E. Sample Contract: Provide a sample of the proposed contract for your bank's services. Please also provide samples of all other documents which will need to be signed/entered into relating to the provision of the services requested in this RFP including any documents referenced or incorporated into the contracts/agreements.

F. Sample Reports: Provide one sample of each of the following type of reports from your system that are available for governmental agencies: Account Reconciliation Reports, Account Statements, Prior Day and Current Day Reports, Account Analysis Statement.

G. Implementation Plan: Detail all costs associated with the conversion of all the proposed services. Describe any on-site training to City personnel for the operation and use of the bank's services and automated systems for all areas of service. Describe the banks training procedures. Describe what supplies the bank will provide at no cost to the City, such as checks, deposit slips, endorsement stamps, cash vault supplies, and other items. Describe in detail how the bank will handle problem resolution, customer service, day-to-day contact, and ongoing maintenance after the conversion is completed.

H. Three (3) references: Attesting to the bank's experience as it relates to providing banking services, preferably local government agencies located in California. The references must include contact name, title, address, e-mail address, telephone number and services used.

I. Fees: Fees in this proposal should cover and be guaranteed for five (5) years. If not, please describe how long the fees are guaranteed.

- J. Credit Rating:** Provide your short- and long-term ratings from the following (preferably two) nationally recognized statistical rating organizations:
- I. Moody's
 - II. Fitch Ratings
 - III. Standard & Poor's

REQUIRED ATTACHMENTS:

- I. Attachment A: Banking Services Charges
- II. Attachment B: Banking Services Questionnaire

EVALUATION OF PROPOSALS

Proposals will be evaluated generally on the following criteria, which is neither weighted nor prioritized:

- a) Proper submission of proposal
- b) Demonstrated understanding of the service requested
- c) Overall capabilities of the financial institution to meet the required service levels described in this RFP
- d) The financial institution's financial standing among its peers and the associated credit quality ratings
- e) Qualifications of the financial institution and assigned individuals
- f) Fees charged and cost effectiveness of the proposed services
- g) Reference checks

SELECTION PROCESS

Each of the proposals received will be evaluated and determined if it meets the stated requirements. Failure to meet these requirements will be a cause for eliminating the financial institution from further consideration.

The City shall not be liable in any way for any cost incurred by any financial institution or in the preparation of its proposal in response to this RFP nor for obtaining any required insurance.

The City reserves the right to reject any and all proposals, to waive any technicalities, informalities and irregularities, to accept or reject all or part of proposals, and to be the sole judge of the suitability of the proposals offered.

Evaluation of the proposals will be made by the Finance Director and other City staff as deemed appropriate by the City. In addition to evaluating written proposals, oral

interviews may be requested. Final selection will be made by the Goleta City Council, upon recommendation by the Finance Director.

PROPOSAL REVIEW AND AWARD SCHEDULE

We will make every effort to administer the proposal process in accordance with the terms and dates outlined below. However, we reserve the right to modify the proposal process and dates as deemed necessary.

EVENT	TIME	ESTIMATED DATES
RFP published and distributed		December 21, 2018
Proposal submission deadline	5:00 pm	January 31, 2019
Proposals reviewed and evaluated by staff		February 4-8, 2019
Oral interviews		TBD
Finance Committee		February 27, 2019 (pending)
Notification to finalist		February 28, 2019
City Council submittal and approval of contract		April 2, 2019
Contract executed/implementation begins		Upon Council Approval
Transition period		April 2019

Attachment A – Banking Services Charges

Pricing required:

Any and all anticipated service charges must be shown on this form to be applicable under the agreement. Please list additional services in the section listed as “Other”. If no charge applies, enter “No Cost” on the line representing that service.

*Please note City’s monthly average is based on a 4-month period.

Pro-forma Pricing Matrix

Description	Monthly Average	Unit Charge	Cost of Service
General			
Account Maintenance		Per Month	
Daily Balance Reporting		Per Month	
Depository Account			
Master Account		Per Month	
Deposited Checks	367	Per Item	
Subsidiary Accounts		Per Month	
Credits Posted		Per Transaction	
Debits Posted		Per Transaction	
Encoding Charge		Per Transaction	
Cash Deposits		Per Transaction	
ACH Processing		Per Transaction	
Origination of File		Per Tape	
ACH Deletions		Per Transaction	
ACH Entries		Per Transaction	
Returned Checks		Per Transaction	
Positive Pay	4	Per Month	
Reconciliation		Per month	
Service Unit		Unit Charge	Cost of Service
Sort List tape		Per Transaction	
Sort and List		Per Transaction	
Items Deposited			
Deposits Per Transaction		Per Transaction	
Commercial Deposits		Per Transaction	
Electronic Deposits		Per Transaction	
Wire Transfers			
Incoming		Per Transaction	
Outgoing		Per Transaction	

Description	Monthly Average	Unit Charge	Cost of Service
Book Debit S/T - Electronic		Per Item	
Book Credit		Per Item	
ACH Originated	4	Per Item	
ACH Received	4	Per Item	
ACH Payments Online Batch Release		Per Item	
Internet ACH One Day item		Per Item	
Internet ACH Two Day item		Per Item	
Internet ACH Base fee		Per Item	
Wire Monthly Base		Per Item	
Book Transfer		Per item	
Special Handling			
Online Reporting Client Maintenance Fee – Basic Banking		Per Month	
Maintenance Fee		Per Month	
Online Reporting Maintenance Fee – Additional Accounts		Per Month	
User Module Fee		Per Month	
Online Viewing <90 days		Per Month	
Previous Day Reporting		Per Item	
Previous Day Dr/Cr Items		Per item	
Current Day Reporting		Per Item	
Maintenance Fee			
Online Reporting Maintenance Fee – Additional accounts		Per Month	
User Module Fee		Per Month	
Online Viewing < 90 Days		Per Month	
Previous Day Reporting		Per Item	
Previous Day Dr/Cr Items		Per Item	
Current Day Reporting		Per Item	
Search Capability		Per Account	

Description	Monthly Average	Unit Charge	Cost of Service
Event or Alert Messaging Service - Email		Per Account	
Online Image Review Maintenance		Per Item	
Image Retrieval		Per Item	
Special Report Fee		Per Item	
Disbursement Services			
DDA Checks Paid	260	Per Item	
DDA Statement with Image	1	Per Item	
DDA Statement (Paper)	3	Per Item	
Other:			

Attachment B – Banking Services Questionnaire

Please respond to the following questions regarding your banking services. Include any additional information that you want the City to know. Include samples if it would be beneficial. Please attach your responses with your proposal.

A. Online Banking Services:

- I. Discuss your use of the internet in providing services to your customers.
- II. How often is the daily information updated?
- III. Discuss any training provided by your bank.
- IV. Please provide screenshots of your user interface for online banking, specifically the Account Summary/Activity screen.

B. Statements: Please provide the following sample reports:

- I. Monthly checking account statement
- II. Monthly account analysis

C. Wire Transfers, ACH transactions, EFT and other transfers:

- I. Describe your standard wire transfer services and procedures.
- II. Please discuss wire deadlines.
- III. Please describe your ACH service and the method by which the City can submit ACH files or initiate ACH via your bank's software.

D. Deposit Services:

- I. Please provide your funds availability schedule for funds deposited via cash deposit, wire transfer, checks, and ACH credits (via online).
- II. Please provide your policy regarding receiving same day credit for deposits and any fees that apply.

E. Interest

- I. Describe how interest will be calculated and credited on all accounts. Be specific.

F. Overdraft Processing:

- I. Please provide your bank's policy on overdraft services.
- II. Please describe all charges associated with overdrafts and what are the bank limitations.
- III. Please describe your daylight overdraft policy and any associated charges.

G. Non-Sufficient Funds (NSF)/Returned Items:

- I. Please describe your processing procedures for NSF/Returned items.

H. Customer Service:

- I. Please describe your customer service structure for this account.

I. Errors and Adjustments:

- I. Describe your process for avoiding and resolving deposit discrepancies. Are there established turn-around times for research and adjustments? If yes, please specify.
- II. How soon are deposit discrepancies (other than NSF items) identified?

Attachment C – City of Goleta Investment Policy – Revised 2017
CITY OF GOLETA, CALIFORNIA
INVESTMENT POLICY – REVISED 2017

1. PURPOSE

It is the purpose of the City’s investment policy to establish strategies, practices and procedures to be used in investing public funds in a prudent manner, which will provide the maximum security while meeting daily cash flow needs and conforming to all statutes governing the investment of public funds.

Secondly, this document will identify policies that enhance opportunities for a prudent and systematic investment of public funds. This policy is intended to guide the investment of City funds toward the goals of safety, liquidity and yield.

2. POLICY

It is the policy of the City of Goleta, hereafter referred to as the “City”, to invest public funds not required for immediate day-to-day operations, also referred to as idle funds, in safe and liquid investments having acceptable rates of return while conforming to all state statutes and this City’s Investment Policy.

Any conflict between this City Investment Policy and Government Code Section 53600 et. seq., shall be interpreted in favor of the Government Code.

3. SCOPE

It is intended that this policy cover all funds and investment activities of the City. These funds are reflected in the annual audit report and include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Fiduciary Funds

Any additional funds that may be created from time to time shall also be administered within the provisions of this policy and comply with the California State Government Code. This policy covers the investment activities of idle funds under the direct authority of the City.

A. Pooled Investments

Investments for the City and its component units will be made on a pooled basis, except as provided for below.

B. Investments Held Separately

In some instances, investments cannot be included in the City's investment pool. These may include investments of bond proceeds. In such cases the funds will be held separately when required by law, contract or other authority.

4. **OBJECTIVES**

Section 53600.5 of the California Government Code outlines the primary objectives of a trustee investing public money. The primary objectives, in order of priority, of the City's investment activities shall be:

A. **Safety**

Safety of principal is the foremost objective of the investment program. Investments by the City shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio and reduce both credit and market risk. The type of investment instruments and diversification of investments are critical components to ensuring investment portfolio safety.

B. **Liquidity**

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. Liquidity also refers to the ability to convert an investment to cash without loss of principal and minimal loss of interest.

C. **Yield**

Investment return becomes a consideration only after the basic requirements of safety and liquidity have been met. The City shall attempt to obtain an acceptable return for additional income for City operations relative to the risk being taken.

The City Treasurer shall strive to maintain the level of investment of all idle funds as close to 100% as possible. While the objectives of safety and liquidity must first be met, it is recognized that investment assets represent a potential source of significant revenues. It is to the benefit of the City that these assets be managed to produce optimum revenues consistent with State statutes and local policies.

5. **AUTHORIZED INVESTMENTS**

- A. **Pooled Monies for Investment Purpose.** The City Treasurer may invest City funds in the following instruments as specified in California Government Code Section 53601, and as further limited in this policy.

- (1) Local Agency Investment Fund (LAIF) of the State of California. Investments in accordance with the laws and regulations governing those funds.
- (2) Obligations of the U.S. Government, its agencies and instrumentalities, including mortgage-backed securities with a fixed coupon issued by an agency of the U.S. Government.
- (3) Certificates of Deposit (CDs). CDs shall not exceed five-year maturity. CDs shall be collateralized as specified in Section 6 of this investment policy. CDs shall be issued by nationally or state chartered banks and cannot exceed thirty percent (30%) of the total portfolio. The City may waive collateral requirements for the portion of any deposit insured up to the amount allowed per account by the FDIC.
- (4) Prime Commercial Paper of the highest numerical rating of Moody's Investment Service, Inc. or Standard & Poor's Corporation (S&P) from issuing corporations that are organized and operating within the United States and having total assets in excess of \$500 million and having the equivalent to an "AA-" or higher rating from either Moody's or S&P for other debt of the issuer. Commercial Paper shall not exceed 270 days maturity or 25% of the portfolio.
- (5) Money market funds with portfolios consisting of one or more of the indicated legal investments and none of the prohibited investments.
- (6) Sweep account for the investment of overnight funds when the funds are swept into investments authorized by this policy.
- (7) Passbook accounts maintained solely to provide for ongoing operational needs shall be subject to the requirements of this policy.
- (8) Investment Trust of California, a Joint Powers Authority, doing business as CalTRUST. The City may invest in CalTRUST, a pool created by local public agencies to provide a method for local public agencies to pool their assets for investment purposes

B. Investments Held Separately. Investments of bond funds shall be made in conformance with the trust indenture for each issue. Such investments shall be held separately when required.

6. COLLATERALIZATION

Investments in certificates of deposit, sweep accounts and passport accounts shall be fully insured up to the limit set by the Federal Deposit Insurance Corporation or the Federal Savings & Loan Insurance Corporation (FDIC). Investments in certificates of deposit, sweep accounts and passport accounts in excess of the FDIC limit shall be properly collateralized as required by law.

7. UNAUTHORIZED INVESTMENTS/INVESTMENT ACTIVITIES

Investments not specifically authorized herein are disallowed. Additionally, Section 53601.6 of the California Government Code disallows the following: inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages. Futures, options, all leveraged purchases, reverse repurchases, and speculations on interest rates are specifically not allowed by this policy.

8. INVESTMENT STRATEGY

- A. **Buy and Hold.** A buy and hold strategy shall generally be followed. A buy and hold strategy requires that the portfolio be kept sufficiently liquid to preclude the undesirable sale of investments prior to maturity. Occasionally, the City Treasurer may find it advantageous to sell an investment prior to maturity, such as when the return for an alternative investment would significantly exceed the loss on the current investment. The sale of investments prior to maturity should be only on an exception basis and only when it is clearly favorable to do so. To further provide for liquidity, investments will be made only in readily marketable securities actively traded in the secondary market.
- B. **Benchmark.** The City shall use the LAIF interest rate as a benchmark to measure whether or not the City's portfolio net yields are matching or surpassing the market yield. The benchmark and investment performance will be reviewed by the Finance and Audit Standing Committee as market conditions warrant or when the benchmark is not met for a consecutive one-year period.
- C. **Per Indenture Provisions.** Investments held separately for bond proceeds will follow the trust indenture for each issue.

9. MAXIMUM MATURITIES

- A. **Pooled Monies for Investment Purpose.** A policy of laddered portfolio shall be followed for pooled investments. At least thirty-five percent (35%) of the portfolio value shall be invested in instruments maturing within one year from the investment date. No more than twenty-five percent (25%) of the entire portfolio value shall have a maturity date between three (3) and

five (5) years from the investment date, unless the Treasurer can demonstrate via a comprehensive cash-flow analysis that higher percentages allows the City to meet its cash-flow requirements. Investments having a maturity greater than five (5) years shall not be made.

- B. **Investments Held Separately.** Maturities for investments held separately shall conform to the trust indenture for each issue.

10. **DIVERSIFICATION**

The portfolio instrument composition shall be diversified to the extent feasible to avoid incurring unreasonable and avoidable risks regarding specific security types indicated in Section 5 of this investment policy. No more than ten percent (10%) of the value of the City's portfolio will be placed with any single issuer, with the exception of the U.S. Treasury/Federal agency securities, authorized pools, and collateralized investments.

11. **SELECTION OF FINANCIAL INSTITUTIONS AND BROKERS/DEALERS**

- A. **General.** Investments shall be purchased only through well-established, financially sound institutions. All financial institutions and broker/dealers who desire to become qualified vendors for investment transactions will be given a copy of the City's investment policy and certification form. The completion and submission of the certification form by a broker-dealer or financial institution shall constitute proof that it has received the City's Statement of Investment Policy, read it, and intends to comply with it. Qualified financial institutions must provide current audited financial statements and provide either verification of a federal or a state charter or of being an eligible institution per the California Government Code. Broker/dealers must provide current audited financial statements and verification that the firm is in good standing with one of national securities exchange that is registered with the Securities Exchange Commission.
- B. **Authorized Financial Institutions.** The City Treasurer shall maintain an Approved List of all commercial banks and all savings and loan associations which may serve as public depositories of City monies. That list will be reviewed by the Finance and Audit Standing Committee within three months of modifying the list.

The City shall only deposit public monies in financial institutions that have: (1) at least \$500 million in total assets; (2) a core capital-to-total assets ratio of at least five percent; (3) favorable ratings from a recognized financial institution rating service, as determined by the City Treasurer; (4) a federal or a state charter; or are eligible institutions per the California Government Code and (5) a branch office within Santa Barbara County.

Under no circumstances shall the City's deposits in a financial institution exceed the total shareholders' equity of that institution.

- C. **Authorized Broker-dealers.** The City will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker-dealers selected by credit worthiness who are authorized to provide investment services in the State of California. These may include primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15c3-1 (uniform new capital rule). All financial institutions and broker-dealers for investment transactions must supply the City with the following: audited financial statements, proof of Financial Industry Regulatory Authority (FINRA) certification, proof of State of California registrations, completed broker-dealer questionnaire, and certificate of having read the City's investment policy.

12. **PAYMENT, DELIVERY, SAFEKEEPING AND CUSTODY**

All security transactions entered into by the City shall be conducted on a delivery-vs.-payment basis. Transactions, including wiring instructions, must be approved in writing by the City Treasurer or his/her designee, identified in advance in writing, or the City Manager. All investment transactions in excess of \$100,000 (except for deposits or withdrawals from the LAIF) shall also require the signature of the City Manager or his/her designee.

All securities owned by the City, (except the collateral for certificates of deposit in banks and/or savings and loans) shall be held by a third-party custodian designated by the City Treasurer. The third-party custodian shall annually provide a copy of their most recent report of internal controls. The custodian shall also provide periodic statements of the securities owned by the City listing the specific instrument, rate, maturity and other pertinent information. All securities shall be held in the nominee name of the custodian.

13. **PRUDENCE**

Section 53600.3 of the California Government Code identifies as trustees those persons authorized to make investment decisions on behalf of a local agency. As a trustee, the standard of prudence to be used shall be the "prudent investor" standard and shall be applied in the context of managing the overall portfolio. Investments shall be made with judgment and care, under circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Investment officers, acting in accordance with written procedures and the investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk changes or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

14. DELEGATION OF AUTHORITY

Authority to manage the City's investment program is derived from the California Government Code Sections 53600 through 53609. The management of idle cash and the investment of funds identified in paragraph 3(A) is the responsibility of the Finance Department. The Finance Department is under the control of the Finance Director, and appointed by the City Manager as the City Treasurer. Management responsibility for the investment program is hereby delegated to the Finance Director/City Treasurer as directed by the City Council. Under the authority granted by the City Council, no person may engage in an investment transaction covered by the terms of this policy unless directed by the Treasurer.

In the execution of this delegated authority, the Treasurer may establish accounts with qualified financial institutions and brokers/dealers for the purpose of effecting investment transactions in accordance with this policy. The criteria used to select qualified financial institutions and brokers/dealers are identified in Part 11 of this policy.

This delegation of authority shall be in effect for one fiscal year. The City Council may renew the authority annually and may revoke the authority at any time.

15. INTERNAL CONTROL

The City Treasurer shall establish and maintain a system of appropriate internal controls to ensure compliance with policies and procedures. The controls are designated to prevent losses of public funds arising from fraud, error, or imprudent actions by employees and officers of the City.

16. ETHICS AND CONFLICTS OF INTEREST

All participants in the City's investment process shall act responsibly as custodians of the public trust. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment recommendations and decisions. Investment officials and employees shall make all disclosures appropriate under the Fair Political Practices Act, and shall seek and follow the advice of the City Attorney and the Fair Political Practices Commission whenever there is a question of personal, financial or investment positions that could represent potential conflicts of interest.

17. **REPORTING**

A. **Pooled Investments.** The investment report shall be submitted to the City Council on a quarterly basis by the City Treasurer. The quarterly report shall include the following elements:

- Itemized listing of portfolio investments by type, date of maturity, yield to maturity, and issuer.
- Par value, dollar amount invested, book value and current market value if applicable. The source of the market values will be cited.
- Statement that the investment portfolio has the ability to meet the City's cash flow demands for the next six months.
- Statement of compliance of the portfolio with the City's investment policy.
- Cash investment balances

B. **Investments Held Separately.** A report of the investments held separately shall be made on a quarterly basis and submitted as an attachment to the City Treasurer's quarterly report.

18. **EXCEPTIONS**

Occasionally, exceptions to some of the requirements specified in this investment policy may occur for pooled investments because of events subsequent to the purchase of investment instruments. State law is silent as to how exceptions should be corrected. Exceptions may be temporary or more lasting; they may be self-correcting or require specific action. If specific action is required, the City Treasurer should determine the course of action that would correct exceptions to move the portfolio into compliance with State law and City policy. Disclosure of exceptions lasting more than 183 days shall be done in the quarterly investment report immediately following the 183 days. Decisions to correct exceptions should not expose the assets of the portfolio to undue risk, and should not impair the meeting of financial obligations as they fall due. Any subsequent investments should not extend existing exceptions.

19. **INVESTMENT POLICY ADOPTION**

The City's investment policy and any modifications thereto shall be considered at a public meeting. Any modifications to the Investment Policy must be approved by the City Council.

The City's investment policy shall be reviewed and adopted annually by the City Council.

INVESTMENT POLICY

GLOSSARY

Bond Indenture (or Trust Indenture): Written agreement specifying the terms and conditions for issuing bonds, stating the form of the bond being offered for sale, interest to be paid, the maturity date, call provisions and protective covenants, if any, collateral pledged, the repayment schedule, and other terms. It described the legal obligations of a bond issuer and the powers of the bond trustee, who has the responsibility for ensuring that interest payments are made to registered bondholders.

Buy and Hold Strategy: Investments in which management has the positive intent and ability to hold each issue until maturity.

Certificates of Deposit: Large denomination (\$100,000 or more) interest bearing time deposits, paying the holder a fixed amount of interest at maturity. Funds cannot be withdrawn before maturity without giving advance notice and without a penalty.

Collateralization: To secure a debt in part or in full by pledge of collateral, asset pledged as security to ensure payment or performance of an obligation.

Current Yield: The interest paid on an investment expressed as a percentage of the current price of the security.

Delivery versus Payment: Securities industry term indicating payment is due when the buyer has securities in hand or a book entry receipt.

Disallowed Investments: Prohibited investments include any investments not specifically authorized within this policy, inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages; futures, option, all leveraged purchases, reverse repurchases, and speculations on interest rates.

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Federal Deposit Insurance Corporation (FDIC): The central bank of the United States which consists of a seven member Board of Governors, 12 regional banks, and 5,700 commercial banks that are members.

Fiduciary Funds: Funds held in a trustee or agency capacity for outside parties.

Interest Rate: The annual yield earned on an investment, expressed as a percentage.

Liquidity: Refers to the ability to rapidly convert an investment into cash.

Laddered Portfolio: Bond investment portfolio with securities in each maturity range (e.g. monthly) over a specified period of time (e.g. five years).

Leverage: Investing with borrowed money with the exception that the interest earned on the investment will exceed the interest paid on the borrowed money.

Local Agency Investment Fund (LAIF): A voluntary investment program offering participating agencies the opportunity to participate in a major portfolio which daily invests hundreds of millions of dollars, using the investment expertise of the State Treasurer's Office investment staff at no additional cost to the taxpayer. Investment in LAIF, considered a short-term investment, is readily available for cash withdrawal on a daily basis.

Market Risk: Defined as market value fluctuations due to overall changes in the general level of interest rates. Adverse fluctuation possibilities shall be mitigated by limiting the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis, and eliminating the need to sell securities prior to maturity. Also, avoiding the purchase of long term securities for the sole purpose of short-term speculation mitigates market risk.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

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

Nominee: Registered owner of a stock or bond if difference from the beneficial owner, who acts as holder of record for securities and other assets. Typically, this arrangement is done to facilitate the transfer of securities when it is inconvenient to obtain the signature of the real owner, or the actual owner may not wish to be identified. Nominee ownership simplifies the registration and transfer of securities.

Pooled Investments: Grouping of resources for the advantage of the participants.

Portfolio: Collection of securities held by an investor.

Prime Commercial Paper: Short-term IOU, or unsecured money market obligation, issued by prime rated commercial firms and financial companies, with maturities from 2 days up to 270 days. A promissory note of the issuer used to finance current obligations, and is a negotiable instrument.

Sweep Account: Short-term income fund into which all un-invested cash balances from the non-interest bearing checking account are automatically transferred on a daily basis.

Third-Party Custodian: Corporate agent, usually a commercial bank, who, acting as trustee, holds securities under a written agreement for a corporate client and buys and sells securities when instructed. Custody service includes securities safekeeping, and

collection of dividends and interest. The bank acts only as a transfer agent and makes no buy-sell recommendations.

U.S. Government Securities: Securities issued by the U.S. Government and its agencies which are either directly or indirectly backed by the full faith and credit of the United States. U.S. Government securities include Treasury Bills, Notes and Bonds. Agency securities include those issued by the Federal National Mortgage Association, Federal Home Loan Bank, and similar agencies.

Yield to Maturity: The rate of annual income return on an investment expressed as a percentage, adjusted for any discounts, and spread over the period from the date of purchase to the date of maturity.