TEXAS STATE UNIVERSITY SYSTEM

Depository Funds Policy

November 2010
Texas State University System

Depository Funds Policy

TABLE OF CONTENTS

Depository Policy Statement
Delegation of Responsibilities
Funds Control
Collateralization of Deposits
Authorized Financial Institutions
Master Depository Agreement
Request for Proposals for Depository
  Document and Formats
  Evaluation of Proposals and Award of Contract
  Transition of Services
  Monitoring of Ongoing Depository Relationships
Definitions
TEXAS STATE UNIVERSITY SYSTEM

DEPOSITORY FUNDS POLICY

The Depository Funds Policy prescribes the Texas State University System (“TSUS”) guidelines for the safety of TSUS deposited funds and for the procurement and control of depository services.

This Policy is specifically directed to depositories providing collection and disbursement services (“banking services”) to the components of TSUS.

This Policy establishes general requirements for the establishment of a depository/depositories for TSUS components along with general procedures for awarding and monitoring the resulting depository contracts.

The Board of Regents of TSUS (the “Board”) recognizes the unique characteristics of each component. The Board also recognizes that basic banking services are needed and are identical for each component. The main goal of the Board is to provide for safe, efficient, and cost-effective banking services across the System. It is further the goal of TSUS to provide for one banking services provider across the System, if practical and feasible. The main objectives for banking services are:

- provide for the safety of System funds during collection, custody, and disbursement of those funds/assets
- provide for the safety of all employees of the System in the handling and recording of System assets
- effectively utilize tested banking technologies to serve the System components in the most cost-efficient manner
- assure a minimum level of service across the System with which TSUS can grow and succeed
- achieve cost efficiencies through System-wide banking services
- achieve cost effectiveness through System-wide use of technology
- recognize the values of economy of scale in obtaining banking services
- provide for System-wide reporting and monitoring of services and costs
- assure full insurance and collateralization of System deposited funds at all times

This Depository Funds Policy applies to all assets and components of TSUS. It is the Board’s goal that one hundred percent (100%) of all components’ operating and endowment funds be earning interest at all times. All depository accounts and deposits will be established, controlled, and maintained in accordance with this Policy. Further investment of funds is accomplished under the TSUS Investment Policies for Operating and Endowment Funds.

Depository accounts for time and demand deposits are to be established on a competitive basis at least every six (6) years through the process established by this Policy. The Vice
Chancellor for Finance and components will be involved in the development and bidding process in order to meet all needs.

**Delegation of Responsibilities**

The Board retains ultimate fiduciary responsibility for all the funds and assets of TSUS. The Board will receive the evaluation of proposals and make the final award of depository services for the System.

The handling and control of TSUS assets in all components will have as its primary emphasis the safety of all System assets. All processes and controls must be undertaken with the even greater care and prudence that such person would use with his or her funds. Authority to sign on depository accounts is established in the TSUS Regents Rules and Regulations.

The Vice Chancellor for Finance will be responsible for the coordination with components, preparation of the RFP, and competitive bidding of depository services. The Vice Chancellor has complete oversight responsibility for preparation of the Request for Proposal (RFP) used for the determination of depositories, determination of the format for specifications, solicitation of proposals, final recommendation for depository bank(s), and negotiation of final contracts.

The Chief Fiscal Officer (CFO) of each component has the responsibility to work with the Vice Chancellor for Finance to assure timely preparation of the System RFP, to develop and submit appropriate specifications for their component on a timely basis, and to review and provide feedback on proposals submitted. The CFOs will be part of the evaluation and decision making process directed by the Vice Chancellor.

**Funds Control**

Although ultimate fiduciary responsibility for System assets lies with the Board of Regents, it is the responsibility of each component’s chief executive officer and CFO to develop and maintain controls and procedures to receive, disburse, and account for all funds of the component. Daily safety for funds and oversight of adequate collateralization is the responsibility of the CFO. The ongoing monitoring of services provided by the banking relationship is the responsibility of the CFO.

All funds are to be deposited with the depository bank as quickly as possible, but within seven days of the date of collection (Education Code 51.003-(b)). Timely deposit will insure that TSUS funds and assets are protected and earning continuously.

Withdrawal or transfer of funds in the depository bank accounts must be authorized by at least two of the component’s financial administrators who have signature authority. With the extensive use of electronic communications, procedures and controls must be developed to assure adequate safety measures on all transactions. Electronic transactions should be
used wherever possible for cost efficiency. Non-repetitive electronic wires and transfers will be separately approved and released by two individuals with separate sign-ons and identification codes (PINs). For transactions of $10,000 or more, system controlled repetitive wires and transfers will require two individuals with signatory control to approve the transaction.

Reconciliation of accounts will take place on a timely basis after the end of each month and include all accounts. The component’s CFO is to have all bank accounts reconciled as soon as possible after bank statements are received and no later than the 25th of the succeeding month.

**Establishment of Component Depository Accounts**

Each component will develop procedures for the establishment (and termination) of depository accounts. As part of the RFP process, each CFO will evaluate the need for each existing account and its structure and incorporate the findings into the RFP.

**Collateralization of Deposited Funds**

All time and demand deposits of TSUS funds deposited in any bank must be fully federally insured or collateralized continuously in accordance with this Policy and in conformance with the Texas Public Funds Collateral Act (Texas Government Act, Chapter 2257 and Section 51.002 of the Texas Education Code).

The System master depository agreements shall be executed in accordance with the Federal Financial Institutions Resource, Recovery, and Enforcement Act (FIRREA), which requires a written agreement and a resolution from the bank board or bank loan committee.

In order to anticipate market price changes and provide additional security for all funds, the collateral for each component shall be maintained and monitored. At a minimum, the market value of the collateral will equal 102% of the total value of principal and accrued interest of the deposits. The pledging institution shall be contractually liable for monitoring and maintaining this margin daily.

Collateral pledged to secure deposits shall be held by an independent financial institution outside the holding company of the depository in accordance with a safekeeping agreement signed by authorized representatives of TSUS, the depository, and the custodian (unless the custodian is the Federal Reserve Bank in which case a Circular 7 Pledgee Agreement will be executed). All collateral shall be subject to inspection and audit by TSUS or its independent auditors during reasonable business hours.

**Authorized Collateral for Time and Demand Deposits**

The following securities are the only authorized collateral for time and demand deposits:

A. FDIC insurance coverage.
B. Obligations of the United States, its agencies or instrumentalities, or other evidence of indebtedness of the United States guaranteed as to principal and interest, including MBS which pass the bank (volatility) test and are eligible as collateral with the Federal Reserve.

C. Obligations, the principal and interest on which are guaranteed or insured by the State of Texas or Texas political subdivisions having been rated no less than “A” or its equivalent by two nationally recognized rating agencies.

D. Obligations of any state or of a county, city, or other political subdivision of a state having been rated no less than “A” or its equivalent by two nationally recognized rating agencies.

The component staff shall review no less than monthly the custodian pledged collateral.

Substitution of collateral will be allowed with prior approval of the CFO (or his/her designee).

‘Pooled Collateral’
If the designated depository offers a ‘pooled collateral’ option (under the conditions of the Public Funds Collateral Act) for collateralization of deposits, the Vice Chancellor, in conference with the CFOs, will analyze the balance of risk and cost in the program before a recommendation on modification of the collateral policy of TSUS. Only after a Board approval of the collateral pool alternative is made and necessary changes to all applicable TSUS policies are made may the voluntary pool alternative be utilized by any component.

**Authorized Financial Institutions**
Only financial institutions doing business in Texas with a federal or state charter will be authorized to act as depositories for TSUS. The geographic disparity of the System components is recognized and any depository chosen should have a local presence to serve the needs of those components.

**Master Depository Agreement**
Through the System’s competitive process, one or more financial institutions will be designated as depositories for TSUS. A single Master Depository Contract will be approved and executed by the Board with the depository(s) chosen through the process and authorized to provide depository banking services to any component.

Each component may choose one of the designated banking services depositories with which the Board Master Depository Agreement has been executed to serve their component’s banking services needs. No other depositories shall be utilized for banking services, i.e. collection and disbursement of funds.
Each component will execute an addendum to the Master Depository Agreement for the services as provided by the RFP under the master agreement at the fee structure as negotiated by TSUS for use by all its components.

The Master Depository Agreement will incorporate, by reference, all the provisions of the RFP used to obtain the proposal and the bank’s proposal as submitted. The Agreement will address, at a minimum:

- designation as a depository
- defined term of contract
- conditions for events of default and termination of contract
- designation of parties and responsibilities of each
- applicability of the contract to all components with provisions for addendums and, if needed, applicable specific service sub-agreements
- insurance and collateralization terms and requirements
- assignment of custodian for pledged collateral
- execution of the contract to include the custodian
- incorporation of the fees and provisions used in the Request for Proposal (RFP)
- approving resolution by the Bank Board or Bank Loan Committee

**Request for Proposals (RFP) for Depository Contract**

A RFP format will be utilized to solicit proposals from financial institutions for the provision of depository and banking services at least every six years. From this competitive process one or more banks will be chosen as depositories for TSUS and its components. Negotiations of final terms and conditions may be conducted in order to obtain the best value for TSUS.

The banking structure will be structured to maximize earnings and minimize the cost of related banking services provided.

The RFP should be sent to all known, applicable financial institutions within the geographic limitations of the components deemed capable of providing the services. The RFP may be distributed electronically. The RFP will provide, at a minimum, for:

- account structures which support continuous full investment of funds (such as sweeps),
- services for timely collection of funds through manual or electronic means,
- services for timely disbursement of funds through manual or electronic means,
- complete automated balance and detail reporting for accounting and management purposes,
- secure electronic transmission of information and financial data
• the ability to pay for services on a compensating or fee basis during the contract period, at the discretion of and notice of the component, and dependent upon interest rate environment,
• full insurance and collateralization of funds in accordance with this Policy,
• assignment of a TSUS approved custodian for pledged collateral,
• safekeeping of TSUS securities, and
• termination provisions and conditions.

The Vice Chancellor for Finance, after consultation with the Chancellor, will notify each component’s CFO of the target timeline for issuance and accepting of proposals. The calendar developed by the Vice Chancellor for Finance will specify the timeline for issuance of the RFP, submission of proposals and Board approval.

The CFO of each component is responsible for preparing and submitting background information/data to be incorporated into the System RFP to be transmitted to the Vice Chancellor of Finance for consideration and compilation. The data to be provided should be generated from prior twelve months’ account analyses by component and include:

(1) Actual average balances by account based on the prior 12 months’ activity.
(2) Actual number of transactions by type during the prior fiscal year for all services provided/utilized.
(3) New, alternative, or optional services desired/required for the coming contract.

Request for Proposal Documents and Format
One TSUS Request for Proposal for Banking Services encompassing all components of TSUS and applicable to all components of TSUS will be issued on behalf of the entire System. Financial institutions will be asked to propose for the entire System or multiple components of TSUS. Key elements of the RFP will include:

• A schedule for and conditions required for the submission of proposals.
• A background statement of current services and structure.
• A statement of required services and conditions of the RFP.
• A compilation of service usage volumes by component and System-wide.
• A definition of required services and specific questions concerning the financial institution’s provision for such services.
• A definition of alternative or optional services that may be used by TSUS with specific questions concerning the financial institution’s ability to provide the service.
• A specific fee schedule to be completed as part of the proposal outlining fees to be charged for each required and optional service.
• An earnings history to be completed by the financial institution to indicate the prior twelve months’ interest rates for each available type of account.
**Evaluation of Proposals and Award of Contract**

The Vice Chancellor for Finance will determine if the proposals received are acceptable and determine the best value. Proposals will be analyzed and the findings discussed with all CFOs for input and discussion. After the proposals have been analyzed, a report evaluating and comparing the proposals will be prepared by the Vice Chancellor for Finance. The report will be distributed to all CFOs before presentation to the Board. More than one financial institution may be selected to fulfill specific geographic or service needs of the components, but the goal would be to minimize the number of different banking institutions used by TSUS.

The use of the RFP format will allow for final discussions and negotiations for ‘best and final’ prices with financial institutions to determine the financial institution(s) best suited for provisions of the service. The Vice Chancellor for Finance is authorized to consult with the financial institutions for clarifications and negotiations of the proposals submitted.

The Board will receive the report and recommendation of the Vice Chancellor for Finance and award the depository contract(s). A Board Order will be prepared for the award of the depository contracts prepared by the Vice Chancellor for Finance for an appropriate Board meeting to fit the timeline of implementation. The Board will make the final determination of award after consideration of the proposals received and the evaluative report.

One Master Depository Agreement for the entire System will be negotiated and executed by the Vice Chancellor of Finance on behalf of the Board and in accordance with the Board resolution awarding the contract. If multiple contracts were awarded by the Board, each contract will be negotiated with the basic terms of the RFP. The Chancellor will coordinate the execution by the Regents. The contract will be a Master Agreement and each component using the services of the financial institution will execute an addendum to the Master Agreement to enter into the agreement with the financial institution.

Notification of award will be sent to all proposing financial institutions.

**Transition Period**

An approximate timeline for implementation will be set with each financial institution and the component utilizing the services, but no implementation shall be delayed more than six months.

**Monitoring of the Ongoing Relationships**

On no less than an annual basis, each component will meet with the financial institution providing banking services to review all services, problems, and possible improvements as well as implementation of newly offered services.

**Definitions**

*Bailee:* the custodian’s role under the Public Funds Collateral Act in events of default under which the custodian bank acts as the agent for TSUS and takes possession of all collateral under agreed upon terms until such default is cured.
Banks: financial institutions doing business in Texas and chartered as banks by the State of Texas or the Federal Government. Local banks operate with a branch or central location within the city limits of the city in which the component is located. “Virtual banks” (which exist fundamentally electronically) are not categorized as banks for purpose of this Policy.

Collateral: securities pledged to, but not owned by, TSUS placed in an independent custodial account for benefit of TSUS in the event of a default of the depository.

Component Funds: funds and assets which are the property of the TSUS component and funds for which the component is acting in a fiduciary capacity. The latter includes amounts generally accounted for in the Agency Fund group.

Custodian: a bank or other financial institution which acts as trustee and bailee for securities pledged as collateral by the depository bank. Custodians are limited to banks, bankers’ banks, and the US Federal Reserve.

Depository: a bank designated as a ‘depository’ by the Board in which TSUS components maintain their bank accounts and from which they process collections and disbursements. Other depositories may be used strictly for investment purposes for time deposits or interest-bearing stand-alone accounts.

Education Code 51.002: delineates the types of funds which can be placed in depositories and includes general directions as to the competitive nature of bidding depository services. It refers all investment activity to the Texas Public Funds Investment Act (Government Code 2256).

FIRREA: the Federal Financial Institutions Resource, Recovery, and Enforcement Act is the administrative act which guides the FDIC (Federal Deposit Insurance Corporation) in actions taken under the closing of a bank. The Act has four requirements of the public entity: any agreement must be in writing, the agreement must be approved by resolution of the Bank Board or Bank Loan Committee, the agreement must be entered into the official records of the bank, and any change in collateral must be simultaneous to the agreement (which requires that no list of specific collateral be appended to the agreement).

Operating Funds: those System funds designated for operations of the System and its components. Funds may be kept liquid (with daily liquidity) for day-to-day operations or be held for short and long-term needs usually identified with fiscal year operations. These include funds not usually associated with day-to-day operations such as Plant and Retirement of Indebtedness (I&S) Funds. Investment of operating and endowment funds are governed by the Operating and Endowment Investment Policies of TSUS.

Texas Public Funds Collateral Act: Texas Government Code Chapter 2257 delineates requirements for insurance and collateralization of all public funds in Texas including higher education.