

# **THE TEXAS STATE UNIVERSITY SYSTEM**



## **Depository Funds Policy**

**February 2020**

# THE TEXAS STATE UNIVERSITY SYSTEM

## DEPOSITORY FUNDS POLICY

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

The Texas State University System Board of Regents (the “Board”) recognizes the unique characteristics of each component. The Board also recognizes that basic banking services are needed, and those basic needs are identical for each component. The Board’s primary objectives for banking services are:

- provide for the safety of TSUS funds during collection, custody, and disbursement of those funds/assets;
- effectively utilize tested banking technologies to serve the components to mitigate fraud, provide business continuity, and provide services in the most cost-effective 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; and
- always assure full insurance and collateralization of TSUS deposited funds.

The Depository Funds Policy applies to all components of TSUS. 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 Policy for Operating Funds and Endowment Funds.

Depository accounts for time and demand deposits are to be established on a competitive basis. The Vice Chancellor & CFO (“VC-CFO”) and the Chief Fiscal Officer (“CFO”) of each component will be involved in the development of specifications for any competitive procurement process in order to best meet System needs.

### **Delegation of Responsibilities**

The Board retains ultimate fiduciary responsibility for all the funds and assets of TSUS. The Board will receive award recommendations from the VC-CFO and make the final determination of award for depository services. The CFO at each component institution will have as its primary emphasis the safety of TSUS assets. All processes and controls must adhere to the prudent person standard for all transactions as well as management of the overall banking relationship. Authority to sign on depository accounts is established in the TSUS Rules and Regulations.

The VC-CFO will be responsible for coordinating with the CFOs when selecting depository services on behalf of the components and will invite the CFOs to participate in the process to select a depository bank(s). The VC-CFO has complete oversight responsibility for the procurement process used for the selection of a depository including any solicitation of offers, final recommendations for a depository bank(s), and negotiation of final contracts.

The CFO's are responsible for preparing and providing to the VC-CFO all necessary information for incorporation into the procurement process, including:

- consolidated bank analysis statements that reflect twelve months' worth of data, with the current fees redacted;
- and new or optional services desired/required for the coming contract.

### **Funds Control**

Each CFO will be responsible for:

- developing and maintaining the controls and procedures to receive, disburse, and account for component funds;
- the daily safety of component funds;
- oversight of adequate collateralization; and
- the ongoing monitoring of services provided by the banking relationship to the component.

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

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

### **Establishment of Component Depository Accounts**

Each component will develop procedures for the establishment (and termination) of depository accounts. Prior to the selection of a new depository, each CFO will evaluate the need for each existing account and its structure.

### **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.

The TSUS 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 financial institution shall be contractually liable for maintaining this margin daily. Component shall review the collateral reports no less than monthly to assure the market value of the securities pledged equals or exceeds 102% of the related bank balances.

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 or component, the depository, and the custodian (unless the custodian is the Federal Reserve Bank in which case a Circular 7 Pledge 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**

Eligible collateral must meet the requirements of Texas Government Code Chapter 2257, Public Funds Collateral Act or securities authorized by the Public Funds Investment Act. The use of a letter of credit issued to the component institution by the Federal Home Loan Bank may be considered to meet the required bank depository collateral requirements.

### **Selection of a Depository**

Only financial institutions doing business in Texas with a federal or state charter will be authorized to act as depositories for TSUS. One or more banks may be chosen as depositories for the System using the appropriate procurement process according to applicable state laws.

All known and applicable financial institutions within the geographic limitations of the components and deemed capable of providing the services should be solicited. Financial institutions will be required to submit an earnings history to indicate the prior twelve months' interest rates and earnings credit rates for each available type of account.

Solicitation specifications will provide, at a minimum, for:

- account structures which support 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; and
- termination provisions and conditions.

### **Master Depository Agreement**

Any Master Depository Agreement (“MDA”) with a financial institution providing depository banking services to a component are subject to approval by the Board. .

Each component may choose one or more of the designated depositories with which the MDA has been executed to serve their component’s banking service needs. Each component will execute an addendum to enter the MDA with the depository.

The MDA will be structured to ensure the security of assets and mitigate fraud, while minimizing the cost of related banking services provided. Any MDA will incorporate, by reference, all the provisions used to obtain the bank’s offer as submitted. The MDA 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 fees and provisions
- approving resolution by the Bank Board or Bank Loan Committee

The term of any depository agreement is limited to six (6) years.