

Approved:

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QUALIFIED BIDDERS' LIST FOR INVESTMENTS POLICY

This policy outlines the program for establishing the qualified bidders' list investment.

I. POLICY

It is the policy of the Fairbanks North Star Borough that a listing be maintained of qualified bidders' for investments.

II. SUPPLEMENTAL INFORMATION

A. References


1. FNSB 3.04

B. Definitions - None

C. Attachments - None

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SUPERSEDES: None  
PRIMARY RESPONSIBILITY: FS

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## QUALIFIED BIDDERS' LIST FOR INVESTMENTS PROCEDURE

This procedure establishes the process for maintaining a qualified bidders' list for investments.

### I. PROCEDURE

#### A. Delegation of Authority

The Mayor is authorized by the FNSB 3.04 to select and qualify financial institutions for the purpose of establishing a bidders list for borough investments. A delegation of authority from the Mayor to the Chief Financial Officer (CFO), the Treasury Budget Manager and the Revenue Supervisor allows this process to be conducted by these individuals in accordance with the following procedure.

#### B. Bidders Lists

The CFO will establish and maintain separate bidders lists that will vary depending on the type of investment to be made.

1. A bidders list will be established for investments that allow the borough to possess a negotiable instrument or verify its legal ownership prior to the transfer of funds for payment such as, U.S. Securities and Agencies, Commercial Paper and Banker's Acceptances.
2. A bidders list will be established for investments that allow the borough to place collateralized Certificates of Deposits and Repurchase Agreements with financial institutions. These financial institutions must be financially sound to ensure the repayment of borough funds upon maturity of the investment. Although these investments are completely collateralized to prevent the loss of principal and interest, the legal and cash flow consequences of a default could adversely impact the borough and should be avoided by a complete financial evaluation of all financial institutions placed on the bidders list.

#### C. Criteria to Qualify

The CFO will set criteria for the evaluation of the brokers and financial institutions being considered for inclusion on each bidders list.

SUPERSEDES: None  
PRIMARY RESPONSIBILITY: FS

1. The criteria for bidders list (B.1), described above will be:
  - a. The broker must be one of the primary government securities dealers as provided by the Federal Reserve Bank of New York, or
  - b. A local firm that is not a primary dealer will be considered eligible for inclusion on bidders' list (B.1) unless subsequently disqualified by the CFO under the disqualification parameters established in subsequent sections of this procedure.
  
2. The criteria for bidders list (B.2), described above will be:
  - a. Financial Criteria
    - i. Source of Financial Criteria - In order to maintain consistency in the presentation of the data and to obtain the data in a cost efficient and expedient manner, the Bank Financial Quarterly (a publication of IDC Financial Publishing) will be used as the source of various financial ratios described in this section.
    - ii. Specific Financial Standards - Financial standards have been selected to evaluate the financial institution based on its overall financial performance, profitability, capitalization and asset quality. The financial evaluation of financial institutions being considered for inclusion on the bidders list will be based on the following accumulation of data:
      - aa. Overall Performance: Rank of Financial Ratios
      - bb. Profitability (the ability to meet forthcoming obligations and ensure increasing assets and net worth):
        - (1) Net Interest Margin (Tax-Equivalent basis) measures the spread between the cost of funds and the interest received on its loan and investments.

- (2) Net Income to Average Assets measures earnings against the investment base.
  - (3) Return on Equity measures net income against equity capital.
  - cc. Capitalization (cushion against deterioration in profitability and default):
    - (1) Equity to Total Assets measures the extent of leverage.
  - dd. Asset Quality (indication of asset deterioration and default):
    - (1) Net Charge-offs to Total Loans - an increasing ratio of charge-offs to total loans is an indication of a deterioration of the asset quality
- iii. The Financial Data shall be evaluated as follows:
- aa. Trend Analysis - The above ratios should be compiled for several consecutive reporting periods. If the trend analysis of these ratios indicates steadily declining profitability, capitalization and asset quality this institution should be seriously considered for subjective disqualification from the bidders list.
  - bb. Peer Group Comparison - The above ratios should be compared to other institutions with similar asset bases for purposes of objectively determining adequate performance. These statistics are compiled in tables for financial institutions based on total assets. The financial institution is considered adequate if their rank and ratios are better than those reflected by the 50th percentile.

## b. Management Criteria

## i. Sources of Management Information

aa. The Borough will request a Questionnaire and Application form to be completed by a management representative of the financial institution. (Attachment 1) The questionnaire will solicit information regarding the staff handling the Borough's account including, their depth of technical expertise, their longevity with the institution and the comparable accounts they manage.

bb. The Borough will require the financial institutions to submit a current audited Financial Statement. The statements will be reviewed for irregularities in the opinion expressed as well as indications, in the footnotes or otherwise, of financial or managerial deficiencies.

## ii. Evaluation of Management Criteria

The type of information that is produced by this type of inquiry will be unique with each circumstance. At the discretion of the Chief Financial Officer, those concerns that may warrant disqualification of a financial institution will be brought before the Investment Advisory Committee.

## c. Additional Criteria for Bidders Lists

The financial institutions being considered for inclusion on either bidders' list (B.1) or (B.2), after qualifying under all other appropriate sections above, must complete all legal documents required for authorized investment transactions. The legal documents must be fully executed with three originals; one for the financial institution and two for Borough (one for the Clerk's Office and one for the Treasury and Budget Division). The documents are as follows:

- i. Letter of Engagement - Financial institutions qualifying for either bidders' list (B.1) or (B.2) must have a fully executed Letter of Engagement on file with the Treasury and Budget Division prior to inclusion on the bidders list. The Letter of Engagement verifies that the institution understands the investment ordinance of the Borough and that they have been qualified to bid on investments of a specific nature only. The institution agrees to act responsibly to assure compliance with the ordinance in its investment dealings with the Borough. (Attachment 2).
  
- ii. Standard Form Repurchase Agreement - Financial institutions qualifying for bidders' list (B.2) must have a fully executed Standard Form Repurchase Agreement on file with the Treasury and Budget Division prior to inclusion on the bidders list. The Standard Form Repurchase Agreement primarily establishes the legal requirements of the financial institution for collateralization, remedies for default, events of default, payment and transfer, termination, substitution of securities and authorized personnel for investment transactions. (Attachment 3.)
  
- iii. Standard Form Depository Contract - Financial institutions qualifying for bidders list (B.2) must have a fully executed Standard Form Depository Contract on file with the Treasury and Budget Division prior to inclusion on the bidders list. The Standard Form Depository Contract, like the Standard Form Repurchase Agreement, establishes the legal requirements of the financial institution for collateralization, remedies for default, events of default, payment and transfer, termination, substitution of securities and authorized personnel for investment transactions. (Attachment 4.)
  
- iv. Standard Form Collateral Custodial Agreement - Financial institutions qualifying for bidders list (B.2) must have a fully executed Standard Form

Collateral Custodial Agreement on file with the Treasury and Budget Division prior to inclusion on the bidders list. The Standard Form Collateral Custodial Agreement is a tri-party agreement between the Borough, the qualifying financial institution and the Borough's Collateral Custodian. Through this agreement the relationship of each party is established. This agreement specifies the responsibility of the custodian for safeguarding the collateral, monitoring the margin requirements and the market value of the collateral, its duty to the financial institution as owner of the collateral and its duty to the Borough in the event of default. (Attachment 5.)

D. Disqualification from Bidders List

The CFO sets criteria for removing financial institutions from the bidders list. In conjunction with the disqualification there is established a process for notification and appeal.

1. Criteria for Disqualification

- a. Default - A default on delivery or upon maturity of an investment, by a financial institution, will be grounds for disqualification.
- b. Breach of Contract - Failure, on behalf of the financial institution, to comply with any provision of the legal documents described in previous sections of this procedure will be grounds for disqualification.
- c. Non-Responsive to Solicitations - Three consecutive non-responsive bids by a financial institution will be grounds for disqualification. This disqualification may be temporary or permanent, at the discretion of the CFO.
- d. Failure to respond to request for additional information - Failure to provide additional information as requested by the CFO will be grounds for disqualification.
- e. Notification of Investigation - Notification or information received by the borough of an investigation by a regulatory agency of a

financial institution on the bidders list, or being considered for inclusion of the bidders list, will be grounds for disqualification.

f. Material Change in Financial/Ethical/Legal Standing - Significant changes in the financial standing of an institution subsequent to the initial qualification that would have kept the institution from initially qualifying will be grounds for disqualification. Additionally, significant changes in the ethical or legal standing of a financial institution will be grounds for disqualification.

2. Notice Upon Disqualification - The borough will give formal notice of disqualification, in the form of a certified letter, within 3 working days of the decision to disqualify. The correspondence will be made to the principal contact of the financial institution as indicated in the Engagement Letter and will state the reason for the disqualification.
3. Appeal - The financial institution will have 30 days to respond with a formal appeal. The appeal should be in the form of a certified letter addressed to the CFO. The appeal must state the basis for which the institution requests reconsideration. The appeal will be presented to the Investment Advisory Committee at the next regularly scheduled meeting. The financial institution will remain ineligible for bidding on investment until the appeal process is complete. The decision of the Investment Advisory Committee will be final.

E. Periodic Update

At a minimum, the bidders list will be reviewed and updated every 12 months. To remain on the bidders list, financial institutions must submit for review substantially the same documents required in the initial application process. The CFO may ask for any additional information as deemed necessary for adequate review. The CFO may initiate the update procedure as frequently as necessary to ensure compliance with financial, ethical and legal standings, or to maintain a competitive process. The CFO may use discretion to review the financial institutions more frequently to ensure that there has been no material change in the institution's financial, ethical and legal standing.



II. SUPPLEMENTAL INFORMATION

A. References

1. FNSB 3.04

B. Definitions - None

C. Attachments

1. Questionnaire and Application for Qualified Bidders List
2. Letter of Engagement For Investment Trading Services
3. Repurchase Agreement
4. Depository Contract for Time and Demand Deposits
5. Collateral Custodial Agreement

# # #

FAIRBANKS NORTH STAR BOROUGH  
QUESTIONNAIRE AND APPLICATION FOR QUALIFIED BIDDERS LIST

This questionnaire plus requested reports will be used in the evaluation of your financial institution's inclusion on the Borough's Qualified Bidders List. The completion of this form does not automatically qualify a firm. If after evaluation, the Borough has determined that you will be placed on the Qualified Bidders List you will be notified and the appropriate contracts will be forwarded to your firm for execution.

PART I

1. Name of Firm \_\_\_\_\_

2. Local Address \_\_\_\_\_  
\_\_\_\_\_

National Hdqtrs \_\_\_\_\_  
\_\_\_\_\_

3. Telephone Number: Local ( ) \_\_\_\_\_  
Natnl ( ) \_\_\_\_\_

4. Primary representative/manager/partner-in-charge

Name \_\_\_\_\_ Name \_\_\_\_\_  
Title \_\_\_\_\_ Title \_\_\_\_\_  
Telephone ( ) \_\_\_\_\_ Telephone ( ) \_\_\_\_\_

5. Who is your primary examining authority?  
NASD \_\_\_\_\_ SEC \_\_\_\_\_ NYSE \_\_\_\_\_ OTHER \_\_\_\_\_

6. Which instruments are offered regularly by your local desk that your firm would be interested in bidding on? Each instrument must meet the Borough's Investment Ordinance specifications. (See attached Ordinance 3.04)

- |                          |                           |
|--------------------------|---------------------------|
| ( ) T-Bills              | ( ) Repurchase Agreements |
| ( ) Treasury notes/bonds | ( ) Agencies (specify)    |
| ( ) Prime BAs            | _____                     |
| ( ) Commercial Paper     | _____                     |
| ( ) S & L CDs            | _____                     |
| ( ) Instrumentalities    | ( ) Other                 |
| _____                    | _____                     |
| _____                    | _____                     |
| _____                    | _____                     |

7. What was your firm's total volume in U.S. Government and agency securities trading last year?

Firm-wide \$ \_\_\_\_\_ No. of transactions \_\_\_\_\_  
Your local office \$ \_\_\_\_\_ No. of transactions \_\_\_\_\_

8. Identify all personnel who will be trading with or quoting securities to our government's employees.

| Name  | Title | Telephone no. |
|-------|-------|---------------|
| _____ | _____ | ( )           |
| _____ | _____ | ( )           |
| _____ | _____ | ( )           |
| _____ | _____ | ( )           |

(ATTACH RESUMES OF ALL THE ABOVE PERSONS)

9. Which of the above personnel have read our government's investment policies?

\_\_\_\_\_

\_\_\_\_\_

10. Please indicate which agents of your firm's local offices currently are licensed, certified or registered, and by whom.

| <u>Agent</u> | <u>Licensed or registered by</u> |
|--------------|----------------------------------|
| _____        | _____                            |
| _____        | _____                            |

11. Please identify your public-sector clients in our geographical area who are most comparable to our government.

| <u>Entity</u> | <u>Contact person</u> | <u>Telephone no.</u> | <u>Client since</u> |
|---------------|-----------------------|----------------------|---------------------|
| _____         | _____                 | ( )                  | _____               |
| _____         | _____                 | ( )                  | _____               |
| _____         | _____                 | ( )                  | _____               |

12. Have any of your public-sector clients claimed in writing or through an attorney that they sustained a loss resulting from misrepresentation of the risk characteristics of a security? If so, explain.

13. Have any of your public-sector clients ever notified your firm or your officers in writing that they sustained a loss on an individual security exceeding 10 percent of the original purchase price? Explain.

14. Has your firm ever been notified that it has been subjected to a regulatory or state or federal agency investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sale of any securities or money market instruments? Have any of your employees ever been so investigated? Explain.

15. Has a public-sector client filed a written claim against your firm for investment losses? Explain.
16. Please include samples of research reports that your firm regularly provides to public-sector clients.
17. Please explain your normal custody and delivery process. Who audits these fiduciary systems?
18. Please provide certified financial statements and other indicators regarding your firm's capitalization.
19. Describe the capital line and trading limits that support/limit the office that would conduct business with our government.
20. What training would you provide to our employees and investment officers?
21. Has your firm consistently complied with the SEC or Treasury' Department capital adequacy guidelines? As of this date, does your firm comply with the guidelines? Has your capital position ever fallen short? By what factor (15x, 2x, etc.) does your firm presently exceed the capital adequacy guidelines? Include certified documentation of your capital adequacy as measured by the Federal Reserve standards.
22. Do you participate in the SIPC insurance program? If not, explain why not.
23. What portfolio information do you require from your clients?
24. What reports, transactions, confirmations and paper trail we receive?

25. Enclose a complete schedule of fees and charges for various transactions.
26. How many and what percentage of your transactions failed last month? Last year?
27. Describe the precautions taken by your firm to protect the interests of the public when dealing with governmental agencies as investors.

PART II (To be completed by Brokers and Dealers)

1. Are you a primary dealer in U.S. Government securities?  
( ) Yes ( ) No
2. If so, for how long has your firm been a primary dealer?  
\_\_\_\_\_ years
3. Are you a member of NASD? ( ) Yes ( ) No  
If so, for how many years? \_\_\_\_\_ years

PART III

-CERTIFICATION-

I hereby certify that I have personally read the investment ordinance of the Fairbanks North Star Borough and have implemented reasonable procedures and controls designed to offer only those investments which are authorized under ordinance and for which a formal, contractual agreement has been executed. Whenever we are notified in writing, we will inform our sales personnel of your investment objectives, outlook, strategy and risk constraints. We will notify you immediately by telephone and in writing in the event of a material adverse change in our financial condition. We pledge to exercise due diligence in informing the Borough of fundamental risks associated with financial transactions conducted with our firm. Price markups will be consistent with prevailing institutional pricing at the time of each transaction. I attest to the accuracy of our responses to your questionnaire.

Signature: \_\_\_\_\_

Print or Type Name and Title: \_\_\_\_\_

Date: \_\_\_\_\_

(Countersigned by officer responsible for compliance)

Signature: \_\_\_\_\_

Print or Type Name and Title: \_\_\_\_\_

Date: \_\_\_\_\_

See Human Resources for copies of attachments 2-5.