



February 28, 2023

Mr. Bob Scott, Executive Director of Administrative Services
Town of Prosper
250 West First Street
Prosper, Texas 75078

Dear Mr. Scott:

Thank you for the opportunity to assist the Town of Prosper (the “Town”) with this Depository Bank Services Request for Applications (the “RFA”) project. This assistance was provided to the Town as a service included in the Investment Advisory agreement.

The objective of this engagement was to assist the Town in selecting a primary depository bank following the expiration of the current contract which ends June 30, 2023. The new contract period will be for an initial term of two (2) years commencing July 1, 2023 and continuing through June 30, 2025, with three (3) one-year extension options under the same terms and conditions.

Procedure

The Primary Depository Bank Services RFA project began with the establishment of a Calendar of Events to ensure that the required project steps were performed in a timely and sequential manner.

The process for selecting a Primary Depository Bank is governed by the State of Texas Local Government Codes: Chapter 105 Municipal Depository Act; Chapter 176 Conflict of Interest Act; Chapter 2256 Public Funds Investment Act; and Chapter 2257 Public Funds Collateral Act.

In addition to complying with these State statutory requirements, it was necessary to comply with the Town’s financial and purchasing policies, and Investment Policy.

The RFA procedure was conducted as follows:

1. Analyzed bank service usage and balance records.
2. Reviewed bank accounts and statements.
3. Established the minimum required banking services and potential additional services.
4. Developed a list of potential financial institutions within the municipal boundaries of the Town of Prosper:

2428 Carters Mill Road, Huddleston, VA 24104-4003
540.297.3419

- a. Bank of America, N.A.
 - b. Farmers Bank & Trust Company
 - c. First United Bank and Trust Company
 - d. Independent Financial (Incumbent)
 - e. JPMorgan Chase Bank, N.A.
 - f. Texas Bank
 - g. Wells Fargo Bank, N.A.
 - h. Woodforest National Bank
5. Contacted the identified financial institutions.
 6. Drafted the RFA for review and approval.
 7. Advertised as required.
 8. RFA documents were distributed to the eligible banks via email.
 9. Hosted a Pre-Application Zoom Conference Call that was attended by the following:
 - a. Farmers Bank & Trust
 - b. Independent Financial (Incumbent)
 - c. JPMorgan Chase Bank, N.A.
 - d. Wells Fargo Bank, N.A.
 10. By the deadline, two (2) applications were received from the following banks:
 - a. Independent Financial (Incumbent)
 - b. Wells Fargo Bank, N.A.

The evaluation of the applications was based on, but not limited to, the following criteria, in no particular order of priority:

1. Ability to perform and provide the required and requested services
2. References provided and quality of services
3. Cost of services
4. Transition cost, retention and transition offers and incentives
5. Funds availability
6. Interest paid on interest bearing accounts and deposits
7. Earnings credit calculation on compensating balances
8. Completeness of application and agreement to points outlined in the RFA
9. Convenience of location(s)
10. Previous service relationship with the Town
11. And financial strength and stability of the institution

Fees - Depository Services

Both banks provided a proposed schedule of fees based on the monthly volumes of specific services to be provided to the Town, which were both approximately \$1,500 per month.

Earnings on Balances

In addition to bank service charges, the bank's interest rates on balances are an important part of the relationship. There are two potential earnings sources for the balances held at the bank:

Earnings Credit: The earnings credit calculates "soft-dollar earnings" that can only be used to offset banking fees. Earnings credit amounts above the applicable fees is not paid to the Town as interest. Independent Financial offered an earnings credit rate indexed to the upper end of the Fed Funds target rate, which at the time of submission was 4.50%. Wells Fargo offered a bank managed rate of 1.65%, and because of that, Wells Fargo was analyzed using their interest-bearing option which would provide the better option to the Town.

Hard-dollar Interest: Hard-dollar interest is "regular" interest earnings that result in a deposit to the Town's account, typically at the end of each month.

Earnings credit, hard-dollar interest, or a combination of the two, can be used to offset any services charges. In the analysis, each bank's potential earnings credit was compared to the hard-dollar interest. The better option was then optimized to offset the greatest amount of banking fees. Where appropriate, once the Town's target compensating balance generated enough earnings credit to offset most fees, any excess balance was shown to be invested in that bank's most attractive hard-dollar interest earnings alternative.

Financial Analysis

The table on the following page shows the impact of the fees and the interest rates offered by both banks and the net result to the Town:

Summary Financial Comparison		
	Independent	Wells Fargo
Average Bank Balance	\$33,400,000	33,400,000
Fees for Two Year Term	(\$31,939)	(\$25,740)
Earnings Credit Rate	4.50%	1.65%
Earnings Credit for 2 Years	31,939	159
Interest Rate on Balances	4.50%	4.09%
Two Year Investment Income	2,974,061	2,731,711
Net Two Year Income	\$2,974,061	\$2,706,130
Fees for Five Year Term	(\$86,693)	(\$79,351)
Earnings Credit for Five Year	86,693	407
Five Year Investment Income	7,428,307	6,829,278
Net Five Year Income	\$7,428,307	\$6,750,333
Incentives Offered	0	5,000
Net Income w/ Incentives	\$7,428,307	\$6,755,333

Recommendation

Serving as the Town's depository for the past five (5) years, Independent Financial has been a valued and dependable business partner for the Town and has demonstrated their capability and commitment to provide the highest level of customer service through a professional public funds banking group. Based on the financial analysis and the current service experience the Town has received, the Town staff is recommending that the Council award the contract to Independent Financial Bank. Valley View Consulting concurs with this recommendation.

Please contact E.K. Hufstedler, Thomas Ross, or me to discuss any questions or additional information needs. Thank you for this opportunity to once again serve the Town of Prosper.

Sincerely,



Timothy Pinon
Valley View Consulting, L.L.C.