



CITY OF VESTAVIA HILLS “INVESTMENT POLICY”

Policy

It is the policy of the City of Vestavia Hills, Alabama (the “City”) to invest public funds only with Authorized Financial Institutions and Broker/Dealers, in a manner which will provide maximum security in preserving and protecting capital while insuring the highest investment return and while meeting the daily cash flow demands of the City. All investment activities shall be on a competitive basis and conform to all applicable federal, state and/or local statutes governing the investment of public funds.

Scope

This investment policy applies to all financial assets of the City. These funds are accounted for in the City’s monthly financial reports and the annual audit report which include:

- A.)** General Fund
- B.)** Emergency Reserve Funds
- C.)** Capital Project Funds
- D.)** Special Revenue Funds
- E.)** Any existing or newly created fund, unless specifically exempted.

Prudence

Investments shall be made with judgment and care appropriate under circumstances then prevailing and with the prudence, discretion, and intelligence appropriate for the management of public funds. Investments shall not be made for speculation, but will consider the probable safety of their principal as well as the probable income to be derived.

Objectives

Safety

Safety of the principal is the foremost objective of this policy statement. Investments made by the City shall be made in financial instruments which provide maximum levels of preservation and protection of capital. All investment activity shall conform to the Code of Alabama Section 11-81-21 (Exhibit A).

Liquidity

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated.

Authority

The daily execution of this policy statement shall be the responsibility of the Director of Finance. The Director of Finance and the Mayor shall invest City funds in approved financial instruments in accordance with the liquidity needs of the City. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the investment activities of all authorized officials including subordinates.

Authorized Individuals

The Director of Finance shall maintain a list of those individuals authorized by the City Council to invest City funds on behalf of the City. This list shall be provided to all financial institutions with which the City may transact business.

Authorized Financial Institutions and Broker/Dealers

Authorized financial institutions and broker/dealers consist of those that have offices residing within the limits of the Birmingham-Hoover SMSA. In addition, authorized financial institutions that accept deposits of public funds must be designated as a "qualified public depository" under the provisions of the Security for Alabama Funds Enhancement (SAFE) Program, and authorized broker/dealers must be qualified under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposits shall be made except in a financial institution designated as a qualified public depository.

Reporting

The Director of Finance shall provide an investment/cash report of all city funds deposited and/or invested to the City Council on a monthly basis.

Authorized Investments

Pursuant to Section 11-81-21 of the Code of Alabama, (Exhibit A), the City shall invest municipal funds as outlined within the referenced Code. Final maturities and diversification by security type and financial institution shall be determined by the Director of Finance with the approval of the City Council in accordance with policy guidelines.

Maturities

All investments of funds to be used for current operations shall have a final maturity date of not greater than one year. All investments of capital projects, emergency reserve, and special revenue funds shall have a maturity of not greater than two years. The City shall invest all funds with maturities to coincide with the expected use of the funds.

Diversification

The City will diversify its investments by security type and institution. However, the City will limit at least 90% of its investment portfolio (including cash and equivalents) to U.S. Treasury securities, authorized pools, FDIC insured funds and SAFE Program qualified public depository investments. The remaining 10% can be invested in other allowed investments (Exhibit A), but with no more than 50% of that amount to be in a single security type or with a single financial institution.

Collateralization

Deposit type securities shall be collateralized through the SAFE Program for any amount exceeding FDIC coverage. Other investments shall be collateralized by the actual security held in safekeeping by the primary agent. The collateral for repurchase agreements will, at all times, be no less than 102% of the value of the repurchase agreement.

Safekeeping

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Director of Finance and evidenced by safekeeping receipts.

Compliance with Arbitrage Rebate Requirements

The 1986 Tax Reform Act and the subsequent arbitrage rebate regulations imposed new and complex requirements on issuers of tax-exempt debt in terms of tracking the yield differential between the cost of the debt and the earnings of the debt proceeds; Failure to perform the calculations correctly could result in the loss of the tax-exempt status of the debt issue. To safeguard against this

possibility, the City shall consult with an appropriate financial advisor (financial advisor, bond council, etc.), annually, regarding any necessary rebate calculations. The City shall rebate the minimum excess earnings to the Federal Government as required by law.

Internal Controls

The City shall maintain an internal control structure designed to ensure that financial assets of the City are protected from loss, theft or misuse. Such internal controls and compliance therewith shall be subject to review in connection with the City's independent annual audit.

Annual Review

The Director of Finance will ensure that the Investment Policy shall be reviewed no later than March 31, annually. Any recommended modifications shall be submitted to the City Council for approval.

Performance Standards

The City of Vestavia Hills investment policy is designed to achieve market rates of return during all economic cycles, recognizing the City's investment risk constraints and cash flow needs.

Exhibit A
City of Vestavia Hills "Investment Policy"
Investment of funds obligation in which sinking funds may be invested.

Any municipal funds or county funds not presently needed for other purposes may be invested in any obligations in which sinking funds are now authorized to be invested, pursuant to Section 11-81-19, and in addition in any of the following:

- (1) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America;
- (2) Obligations of any of the following federal agencies, which obligations represent the full faith and credit of the United States of America:
 - a. Farmers Home Administration.
 - b. General Services Administration. c. U.S. Maritime Administration.
 - d. Small Business Administration.
 - e. Government National Mortgage Association (GNMA).
 - f. U.S. Department of Housing and Urban Development (HUD). g. Federal Housing Administration (FHA).
- (3) U.S. dollar denominated deposit accounts and certificates of deposit with banks or savings associations which are qualified public depositories under Chapter 14A of Title 41.

(4) Pre-refunded public obligations, defined as follows:

Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable at the option of the obligor prior to maturity or as to which irrevocable notice has been given by the obligor to call on the date specified in the notice, and (ii) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or obligations described in subdivision (1) above, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (iii) which fund is sufficient, as verified by an independent certified public accountant, to pay principal of and interest and redemption, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (i) of this paragraph, as appropriate, and (iv) which are rated, based on the escrow, in the highest rating category of Standard & Poor's Corporation and Moody's Investors Service, Inc., or any successors thereto.

(5) Interests, however evidenced, in any common trust fund or other collective investment fund maintained by any national or state chartered bank, trust company or savings association having trust powers, or securities of or other interests in any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, as from time to time amended, so long as all of the following requirements are met at the time of purchase and during the term of investment: (i) At least 65% of the portfolio of such common trust fund, collective investment fund or investment company or investment trust must consist of investments authorized in subdivisions (1), (2), (3), or (4) above, and (ii) the remainder of the portfolio (if any, but not more than 35%) may consist only of the following investments: (x) obligations issued or guaranteed by the following agencies: Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), including FNMA, and PHLMC participation certificates, Federal Land Banks, Central Bank for Cooperatives, Federal

Intermediate Credit Banks, Student Loan Marketing

Association, and Federal Home Loan Banks, (y) mortgage related securities (as that term is defined in Section 3 (a) (41) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a) (41)), or (z) repurchase agreements fully collateralized by obligations, securities or investments otherwise authorized under subdivisions S(i)-(ii), so long as the common trust fund, collective investment fund, investment company or investment trust takes possession and delivery of the collateral for any repurchase agreement either directly or through an authorized custodian. The fact that any financial institution making such investment on behalf of the municipality or county, or any affiliate of such financial institution, is providing services to the investment company or investment trust as an investment advisor, sponsor, distributor, custodian, transfer agent, registrar, or otherwise, and is receiving reasonable remuneration for such services, shall not preclude such institution from making the investment in the securities of such investment company or investment trust; provided, however, that with respect to any account for municipal funds or county funds to which fees are charged for such services, the said financial institution shall disclose (by prospectus, account statement or otherwise) to the beneficiary of such account or to any third party directing investments the basis (expressed as a percentage of asset value or otherwise) upon which the fee is calculated.

The terms "municipal funds" and "county funds" as used in this section shall include all general, special, permanent, trust and other funds, regardless of source or purpose, held or administered by any county, city or town, or by any officer or agency thereof, in the State of Alabama.

Investments of municipal funds or county funds shall be made by the officer or agency controlling their disposition. Such county, city or town, or official or agency thereof, may at any time sell such obligations purchased pursuant to this section, and the money received from such sale and the interest and profits on such investment shall be credited to the fund from which the investment was made. Any such obligation may be deposited for safekeeping 'With any bank, trust company or savings association organized either under the laws of the State of Alabama or of the United States.

(Acts 1943, No. 246, p. 203; Acts 1975, No. 1120, §1; Acts 1989, No. 89-655, p. 1298, §1; Acts 1990, No. 90-481, p. 708; Acts 1991, No. 91-482, p. 872, §1; Acts 1993, No. 93-340, p. 523, §1; Act 2000-748, p. 1669, §2).