

## **Adopted via City Council Resolution 031218-C**

### **City of Alabaster**

### **Investment Policy**

#### **I. Introduction**

The intent of the Investment Policy of the City of Alabaster (the City) is to define the parameters within which funds are to be managed. In methods, procedures and practices, the policy formalizes the framework for the City's investment activities that must be exercised to ensure effective and judicious fiscal and investment management of the City's funds. The guidelines are intended to be broad enough to allow the investment officer to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

#### **II. Governing Authority**

The investment program shall be operated in conformance with federal, state, and other legal requirements, Title 11 Chapter 81 of the Code of Alabama 1975 relating to investment of bond sinking funds.

#### **III. Scope**

This policy applies to activities of the City with regard to investing the financial assets of all funds. In addition, funds held by trustees or fiscal agents are excluded from these rules; however, all funds are subject to regulations established by the state of Alabama. The covered funds, and any new funds created by the City, unless specifically exempted by the Mayor, City Council, or this policy, are defined in the City's Comprehensive Annual Financial Report.

#### **IV. General Objectives**

The primary objectives, in priority order, of investment activities shall be:

##### *1. Safety*

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The goal will be to mitigate credit risk and interest rate risk.

##### *2. Liquidity*

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

### *3. Return*

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints of safety and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
- Selling a security and reinvesting the proceeds that would improve the quality, yield, or target duration in the portfolio may be undertaken;
- Unanticipated liquidity needs of the portfolio require that the security be sold.

## **V. Standards of Care**

### *1. Prudence*

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal liability for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The “prudent person” standard states that,

“Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

### *2. Ethics and Conflicts of Interest*

Officers and employees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

### *3. Delegation of Authority and Responsibilities*

Authority to manage the investment program is granted to the City Treasurer, hereinafter referred to as investment officer. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

## **VI. Authorized Financial Institutions, Depositories, and Broker/Dealers**

### *1. Authorized Financial Institutions, Depositories, and Broker/Dealers*

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness and/or other factors, such as FINRA broker check.

All financial institutions who desire to become depositories must supply the following (as appropriate):

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of state registration
- Evidence of adequate insurance coverage
- Proof of participation in Alabama SAFE program

A periodic review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer.

## **VI. Safekeeping and Custody**

### *1. Delivery vs. Payment*

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible custody account prior to the release of funds.

### *2. Safekeeping*

Securities will be held by an independent third-party safekeeping institution selected by the City. All securities will be evidenced by safekeeping receipts in the City's name. The safekeeping institution shall annually provide a copy of its most recent report on internal controls - Service Organization Control Reports (formerly 70, or SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011.)

### *3. Internal Controls*

Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse.

The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Dual authorizations of wire transfers
- Staff training and
- Review, maintenance and monitoring of security procedures both manual and automated.

## **VIII. Suitable and Authorized Investments**

### *1. Investment Types and Credit Guidelines*

Consistent with the Government Finance Officers Association (GFOA) Policy Statement on State and Local Laws Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by state and local law where applicable. If additional types of securities are approved for investment by public funds by state statute, they will not be eligible for investment by the City until this Policy has been amended and the amended version adopted by the governing body. Typical types of securities include:

- U.S. Treasury and other government obligations that carry the full faith and credit guarantee of the United States for the payment of principal and interest.
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value.
- Bankers' acceptances;
- Federally insured time deposits (Non-negotiable certificates of deposit) in state or federally chartered banks, savings and loans, or credit unions, provided that the amount per institution is limited to the maximum covered under federal insurance;
- Time deposits (Non-negotiable certificates of deposit) in state or federally chartered banks, savings and loans, or credit unions in excess of insured amounts which are fully collateralized with securities in accordance with state law
- Investment-grade obligations of state, provincial and local governments and public authorities;
- SEC registered money market mutual funds; and
- Local government investment pools.

### *2. Collateralization*

All demand deposit accounts will be with a financial institution that participates in the Alabama Security for Alabama Funds Enhancement (SAFE) program to ensure proper collateralization in accordance with Title 41 Chapter 14A of the Code of Alabama 1975.

## **IX. Investment Parameters**

### *1. Mitigating credit risk in the portfolio*

Credit risk is the risk that a security or a portfolio will lose some or all its value due to a real or

perceived change in the ability of the issuer to repay its debt. The City shall mitigate credit risk by adopting the following:

*A. Diversification*

The investments shall be diversified by:

- limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- limiting investment in securities that have higher credit risks,
- investing in securities with varying maturities, and
- continuously investing a portion of the portfolio in readily available funds such as money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

*B. Mitigating market risk in the portfolio*

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The City recognizes that, over time, longer-term/core portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The City shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The City further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments.

**X Performance Standards/ Evaluation**

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates.

## **XI. Reporting/Disclosure**

### *1. Methods*

The Investment Officer will retain and periodically, at a minimum annually, provide the City Council with investment reports. The reports also will be available upon request. Securities holdings, cash balances and market values in the investment portfolio will be provided on the month-end reports. The investment policy shall be reviewed at least annually within 120 days of the end of the fiscal year to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

## **XIII. Policy Considerations**

### *1. Exemption*

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

### *2. Amendments*

This policy shall be reviewed on an annual basis. Any changes must be approved by the investment officer and any other appropriate authority, as well as the individuals charged with maintaining internal controls.

## **XIV Approval of Investment Policy**

The investment policy and any modifications to that policy shall be formally approved and adopted by the City Council.