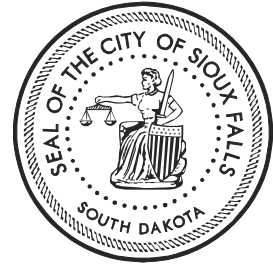


MINUTES

Fiscal Committee

March 26, 2007
5:00 p.m.
Carnegie Town Hall
235 W. 10th Street



Members Present: Committee Chair - Vernon Brown, Kevin Kavanaugh, Pat Costello, Gerald Beninga

Staff Present: Jamie Palmer, Assistant City Clerk

Guests: Eugene Rowenhorst, Director of Finance; Tammy Otten, Michael Bannwarth

1. Call To Order

The meeting was called to order by Committee Chair, Vernon Brown at 5:50 p.m.

2. Reports and Updates

- A. Derivatives Policy
Tammy Otten, Chair of Investment Advisory Board

Mr. Chairman and members of the City Fiscal Committee, I am Tammy Otten. I serve as Chair of the Investment Advisory Board for the City. The board is comprised of five members appointed by the Mayor and consented by the City Council: Michael Bannwarth, Terry Elgethun, Bed Kyte, Richard Lauer and I. The board was established in December of 1995 with the stated purpose of advising the Mayor on City investment policy. The member terms are indefinite.

The board established an investment policy to invest idle public funds in a manner which provides the maximum security, sufficient liquidity, and a competitive investment return to meet the daily cash flow demands of the City. This policy was approved by the City Council.

The board meets quarterly to review the investment of the city's idle funds, to advise staff on permissible investments and determine if any policy change recommendations are necessary.

The board has been asked to provide this committee with input on the City of Sioux Falls Derivative Management Policy. The board understands that this policy is necessary per the indentures of bonds the city will be issuing. The

board does not express an opinion on whether the city should enter into a derivative transaction.

As for the policy, the board offers the following points for the committee to consider as it finalizes the policy.

Consideration:

1. Definitions of some of the terms used in the policy under Policies for Derivative Transactions Point 1 would be helpful to ensure that everyone has the same definition and expectations. The terms speculative purposes, extraordinary leverage, insufficient liquidity, and insufficient price transparency can be different depending on the experience of the individual or group.
2. Point 3 defines the independence of the financial advisor. The board strongly recommends that the financial advisor for the derivatives be truly independent of any bond dealings with the city, not just the underlying refunding transaction.
3. In determining the 50 basic points of interest savings in Point 4, consideration should be given to include all fees in the calculation.
4. Point 5 states that the derivative instrument must bear a logical relationship to the assets. The board suggests that the policy should specifically state is leverage is allowed and how much. Decide how much variance is allowed for the "logical relationship" of the hedge.
5. One of the largest risks in derivative transactions is counterparty risk. Point 7 and 10 set out the requirements of the derivative provider. The board suggests that the counterparty in the transaction should be rated AA or better when the transaction is entered into.
6. Point 5, 6, and 9 require the involvement of City staff in analysis, development and evaluation of the outstanding derivatives. Consideration should be given to the training and education of City staff to properly monitor and fulfill the policy should the City enter into any derivative contracts. Consideration could also be given to hiring an independent financial expert to fulfill the policy requirement of City staff.

The Investment Advisory Board offers these 6 considerations for the committee without giving opinion to the policy as a whole.

Thank you for the opportunity to present these points for your consideration.

3. Open Discussion

There was none.

4. Adjournment at 6:17 p.m.

Jamie L. Palmer
Assistant City Clerk