

**401.3 SUBJECT: FINANCE COMMITTEE - OPERATING PROCEDURES****:1 OBJECTIVE:**

To compliment Finance Committee (established by Ordinance) and provide policies and procedures governing its operation.

**:2 AUTHORITY:**

This procedure amended by City Council May 17, 2004, New Business #1.

**:3 METHOD OF OPERATION:****Definitions**

A. Finance Committee - A committee whose purpose is to establish guidelines within which the City's debt, investment and other financial management policies will be conducted and monitored.

1. The Finance Committee will consist five (5) members, one of whom shall be the Mayor, who shall serve as Chairman, one of whom shall be a City Council member appointed by the Mayor and three which will be members of the public, serving without pay, who shall be appointed by the Mayor. Of the three members of the public appointed, one will have a background in accounting, one will have a background in business and one will have a background in banking or finance.
2. The term of members of the Finance Committee shall be for two years; members

**B. Powers and Duties:**

1. The Finance Committee shall review and make recommendations as appropriate to the Chief Financial Officer, Mayor and City Council on any proposed non-pension investment, debt or asset management strategy.
2. The Finance Committee shall review and recommend guidelines according to which the City's debt, investment and other financial management policies will be conducted and monitored.
3. The Finance Committee shall periodically report to City Council on the effectiveness of the City's various financial policies and strategies.
4. The Finance Committee may retain the services of a Financial Advisor and an Investment Consultant to assist in the performance of its functions.

C. Policies - long-range (five to ten year) directional guidelines, limitations and/or goals which define a general directional framework within which strategies and target benchmarks will be established. For example:

1. Debt management policies may include but not be limited to:
  - a) Use and deployment of various pledgable revenue sources;
  - b) Limitations on the amount of debt by category and/or in total;

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- c) Use of "pay-as-you-go" vs. debt financing alternatives;
  - d) Distinguishing between self-supporting and subsidized debt programs; and
  - e) Limitations on the use of secondary revenue pledges.
2. Investment management policies may include but not be limited to:
    - a) Authorized investment instruments;
    - b) Minimum and average quality levels;
    - c) Requirements for diversification of both instrument type and maturity; and
    - d) Structure to meet liquidity demands.
  3. Strategies - Short or intermediate term (one to three year) directional guidelines within established policies. For Example:
    - a) Debt management strategies may include but not be limited to guidelines for:
      - (1) Mix of variable, intermediate and fixed rate debt;
      - (2) Use and selection of various hedging devices;
      - (3) Setting of targets for the level of subsidy (for non-self supporting debt) required; and
      - (4) Consideration of debt refunding/restructuring.
    - b) Procedures and guidelines for the selection of the City's investment banking team and subsequent use of the banking team members with regard to individual transactions.
    - c) Investment management strategies may include but not be limited to guidelines for:
      - (1) Diversification parameters for instruments;
      - (2) Diversification parameters regarding issuers within specific instruments; and
      - (3) Average and maximum maturity or duration parameters.
    - d) Asset protection and control procedures may include but not be limited to:
      - (1) Custodian vs. counterparty separation;
      - (2) Delivery versus payment (DVP) settlement; and
      - (3) Selection guidelines for counterparty.
    - e) Target Benchmarks - Within the policies and strategies and giving considerations to the changing market circumstances, the target benchmark levels will be established within which certain alternatives may be utilized. This effort would be to lower (a) the risk, (b) the actual or average cost of borrowing, and (c) the debt or investment portfolios' volatility; and, thus, reduce the risk of investment loss and the tax or rate impact of the City's various debt programs.
  4. For example:
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- a) Debt management target benchmarks may include but not be limited to:
  - (1) Maximum rates within which a refunding/restructuring may be initiated;
  - (2) Rates below which various alternative strategies (e.g. caps, swaps, term mode, etc.) may be selectively utilized; and
  - (3) Rates below which new (previously approved) financing initiatives may be undertaken.
- b) Investment management target benchmarks may include but not be limited to:
  - (1) Limiting or expanding duration or maturity risk within established polices and strategies;
  - (2) Limiting or expanding the instrument risk within established policies and strategies; and
  - (3) Expanding or restructuring the list of approved counterparties.

#### D. Scopes of Authority

1. After the initial formalization of various policies and strategies, the hierarchy of final approval responsibilities is established as follows:
  - a) The City Council approval must be obtained before the Finance Committee actions are considered final on change to either established policies or strategies.
  - b) The Finance Committee will be responsible for approving or amending target benchmarks.
  - c) The Chief Financial Officer will have the authority to act within the framework established by approved policies, strategies and target benchmark.
2. For example:
  - a) In the debt management area, this might include:
    - (1) Timing of a mode conversion between commercial paper and intermediate term modes;
    - (2) Election to use one of several synthetic instrument (hedging) devices;
    - (3) Timing of a new financing initiative for a previously approved debt program; and
    - (4) Timing of a refunding initiative.
  - b) In the investment management area, this might include:
    - (1) Decisions to buy or sell specific investments;
    - (2) Shifting of weights between instruments; and
    - (3) Shifting the maturity or duration of the portfolio.

#### E. Finance Committee Procedures

1. Committee meetings will be held quarterly or more frequently as determined by the Mayor.
2. The Chief Financial Officer, with the concurrence of the Chairman, will prepare the agenda and provide copies of the agenda and supporting materials to the Committee members and advisors at least five (5) business days prior to the meeting.
3. At least biannually, all policies will be subject to Committee review and amendment, as appropriate.
4. At least annually, all established policies, strategies and target benchmarks will be subject to Committee review and amendment, as appropriate.
5. Copies of the Finance Committee minutes will be forwarded to the City Clerk for inclusion on the City Council Agenda.

:4 FORMS:

None.

:5 COMMITTEE RESPONSIBILITIES:

- A. Annually, by or before January 15, the Committee will formally report on the fiscal year ending September 30 and the effectiveness of the various policies during the period.

:6 REFERENCE:

Procedure adopted by City Council September 9, 1991, Item 4/GG; amended April 19, 1993, Item VV; amended January 24, 2000, Item 4LL; amended September 15, 2003; amended May 17, 2004, New Business #1.

:7 EFFECTIVE DATE:

This procedure effective May 17, 2004.