

**REDEVELOPMENT AGENCY  
AND THE CITY OF OAKLAND**  
*AGENDA REPORT*

FILED  
OFFICE OF THE CITY CLERK  
OAKLAND  
2008 OCT -9 PM 5:22

TO: Office of the City Administrator  
ATTN: Dan Lindheim  
FROM: Finance and Management Agency  
DATE: October 14, 2008

RE: **Resolution of the City Council of the City of Oakland Approving the Investment In U.S. Treasury Securities for a Not-to-Exceed 60-Day Period in an Amount Not to Exceed 20% of the City Portfolio; and Authorizing Execution of Documents and Taking of All Necessary Actions to Make Such Investments**  
**Resolution of the Redevelopment Agency of the City of Oakland Approving the Investment in U.S. Treasury Securities For A Not-To-Exceed 60-Day Period in an Amount Not to Exceed 20% of the City Portfolio; and Authorizing Execution of Documents and Taking of All Necessary Actions to Make Such Investments**

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**SUMMARY**

Over the past several months, City Staff has been actively exploring options to address the burden of the deeply rooted and unsustainable economic challenges that are currently facing the United States. Dating back to the beginning of 2008, the City has suffered the effects of the subprime mortgage fallout and is now feeling the effects of the stock market's continued decline.

Currently, the City of Oakland ("City") and the Oakland Redevelopment Agency ("Agency") have over 60% of their holdings invested in Fannie Mae and Freddie Mac (the "Federal Agencies") and the balance in a money market fund and other short-term bank instruments. At this time, the City and Agency have not purchased commercial paper or other permissible corporate notes due to the uncertainty in the financial markets. As a result of the limited investment options available, the City and Agency must have the option to invest in other safe instruments such as United States Treasury Securities ("U.S. Treasuries").

Given the current economic climate, it is imperative that the City and Agency diversify their portfolios by investing in U.S. Treasuries, which are direct obligations of the United States Government, in order to minimize exposure to depressed financial products.

**FISCAL IMPACT**

The City and Agency holdings are primarily invested in Federal Agencies, money market funds, and the Local Agency Investment Fund ("LAIF"). To avoid substantial loss, the City and Agency must diversify by investing in U.S. Treasuries. Below are several scenarios where the City and Agency could experience substantial financial loss or liquidity shortage:

- If the Money Market Funds held by the City and Agency fell below \$1 per share the principal amount of investment could be at risk of a substantial financial loss. In addition,

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on September 19, 2008, the American Beacon Select Money Market Fund suspended redemptions to prevent the fund from falling below \$1 per share. As a result the Agency had to transfer its pro-rata share of the fund to its custodial bank, Wells Fargo. This has resulted in significant illiquidity for the portfolio. **Fortunately, there was no loss to principal.** However, since the financial markets are still illiquid, money market funds, in which the City is invested, could freeze their funds which may result in the City having to sell its Federal Agency securities.

- If the City or Agency were to sell its Federal Agency holdings prior to maturity due to daily liquidity needs, it would result in a substantial financial loss based on the fact that market values of the Federal Agencies have dramatically declined.
- With the State seeking \$7 billion from the Federal Government to meet its day-to-day operational needs, the State could force LAIF to suspend all redemptions (The State mandated LAIF to suspend redemptions on July 22, 1998 during the State budgetary process). If this were to happen, it would result in illiquidity for both the City and Agency and would prevent their ability to meet daily operational needs. Currently the City and Agency have \$40 million and \$32.5 million invested in LAIF, respectively.

With no other immediate solution on the horizon, staff recommends that the City and Agency each be permitted to invest 20% of their holdings in U.S. Treasuries to avoid substantial financial loss. The City may take this action if adopted by Resolution, per Ordinance No. 11062 C.M.S. dated December 16, 1988.

## BACKGROUND

On November 8, 1988, Oakland voters passed the "Oakland Nuclear Free Zone Act" (Ordinance No. 11062 C.M.S.), which prohibits the City of Oakland and the Oakland Redevelopment Agency from investing in U.S. Treasuries unless it is found that such investments are necessary to avoid substantial financial losses. Under such circumstances the City Council may authorize, by resolution, investment in U.S. Treasuries for a period not to exceed 60 days based on specific findings of necessity. Continued U.S. Treasuries investments may be approved by subsequent resolutions made at separate meetings of the Council/Agency. If approved, the ordinance requires that the investments must be limited to 20% of the City and Agency's total portfolios.

## KEY ISSUES AND IMPACTS

With the current turmoil in the United States Economy, the City and Agency seek authorization to further diversify their portfolios by investing in U.S. Treasuries, thus reducing risks and exposure to depressed financial markets. Recently, Government Sponsored Enterprises (GSEs) came under fire as Fannie Mae and Freddie Mac mounted high losses due to the mortgage crisis. Eventually, on September 7, 2008, the Federal Government seized control of mortgage giants Fannie Mae and Freddie Mac.

The City and the Agency portfolios continue to hold securities in Federal Agencies, 64.20% and 68.75%, respectively. Federal Agencies continue to be moral obligations of the federal government, while U.S. Treasuries are direct obligations of the federal government.

On September 19, 2008, American Beacon Select Money Market fund suspended redemptions to prevent against loss of principal due to the volatility in the markets. This has forced the Agency to look at alternative ways to provide for liquidity. The securities held by the American Beacon Select Money Market fund were transferred to the Agency's custodial bank, Wells Fargo Bank. There was no loss in asset value but the Agency's portfolio still does not have full liquidity.

Given the current economic climate at both the State and Federal levels, it is imperative that both the City and Agency diversify their portfolios by investing in U.S. Treasuries, which are direct obligations of the United States Government, in order to:

- Prevent loss of principal in the event the City or Agency has to sell its Federal Agency instruments;
- Prevent illiquidity if money market funds or LAIF were to suspend redemption; and
- Create more diversity and liquidity by investing in U.S. Treasuries, which are considered among the safest and most liquid assets.

#### **SUSTAINABLE OPPORTUNITIES**

There are no direct economic opportunities or environmental and social equity impacts resulting from this action.

#### **DISABILITY AND SENIOR CITIZEN ACCESS:**

The proposed action does not impact disability and senior citizen access.

#### **RECOMMENDATION (S) AND RATIONALE**

Due to the uncertainty in global financial markets, staff recommends that the City and Agency invest in U.S. Treasuries as provided by City Ordinance No.11062 C.M.S. This strategy will increase the diversity and safety of the portfolios, which are the primary objectives of the City's and Agency's Investment Policy. Investing in U.S. Treasuries is critical to preventing the City and Agency from experiencing substantial financial losses if current market conditions persist.

Item: \_\_\_\_\_

Finance & Management Committee

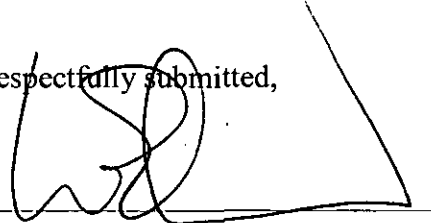
October 14, 2008

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff requests that the City Council and the Governing Board of the Redevelopment Agency approve the respective resolutions authorizing the following actions:

- 1) Investment in United States Treasury Securities for a not-to-exceed period of 60 days; and
- 2) Execution of certain documents and the taking of all necessary actions relating to the investment in United States Treasury Securities.

Respectfully submitted,



WILLIAM E. NOLAND

Director

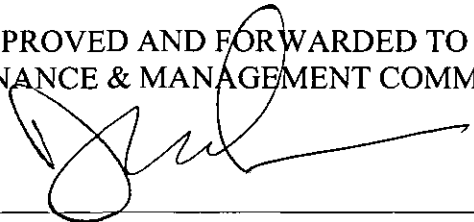
Finance and Management Agency/ Treasurer

Prepared by:

Katano Kasaine, Treasury Manager

Treasury Division

APPROVED AND FORWARDED TO THE  
FINANCE & MANAGEMENT COMMITTEE:



Office of the City Administrator/  
Executive Director of the Redevelopment Agency

INTRODUCED BY COUNCIL MEMBER \_\_\_\_\_

APPROVED AS TO FORM AND LEGALITY

DEPUTY CITY ATTORNEY

FILED  
OFFICE OF THE CITY CLERK  
OAKLAND  
OCT-9 PM 5:22

**OAKLAND CITY COUNCIL**  
RESOLUTION NO. \_\_\_\_\_ C. M. S.

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF OAKLAND APPROVING THE INVESTMENT IN US TREASURY SECURITIES FOR A NOT-TO-EXCEED 60-DAY PERIOD AND IN AN AMOUNT NOT TO EXCEED 20% OF THE CITY PORTFOLIO; AND AUTHORIZING EXECUTION OF DOCUMENTS AND TAKING OF ALL NECESSARY ACTIONS RELATING TO MAKING SUCH INVESTMENTS**

**WHEREAS**, on November 8, 1988, Oakland voters passed the "Oakland Nuclear Free Zone Act" and the City Council adopted Ordinance No. 11062 implementing the voter mandate, which prohibits the City of Oakland and the Redevelopment Agency (Agency) from investing in United States Treasuries except under specified circumstances; and

**WHEREAS**, Ordinance 11062, Section 7(i), authorizes investment in United States Treasuries only if approved by resolution based on specific findings that such investment is necessary to avoid substantial financial losses; and

**WHEREAS**, pursuant to Ordinance 11062, such investment in United States Treasuries is limited to a 60-day period and to amounts no greater than twenty percent (20%) of the City's total portfolio; and

**WHEREAS**, money market funds are at a substantial financial crisis; and

**WHEREAS**, some money market funds have collapsed, falling below one-dollar per share causing investors to lose money; and

**WHEREAS**, one of the Agency's money market accounts (American Beacon) closed on September 19, 2008, causing the Agency funds to be frozen; and

**WHEREAS**, with the California state budget crisis at hand and the state seeking \$7 billion from the federal government to meet its day-to-day operational needs, the Local Agency Investment Fund (LAIF) could be in jeopardy of freezing withdrawals as it did July 22, 1998, which could result in illiquidity for the both the City and Agency resulting in the inability to meet day-to-day financial obligations; and

**WHEREAS**, currently, the City has \$40 million and the Agency has \$32.5 million invested in LAIF; and

**WHEREAS**, investing in U.S. Treasuries would enable the City of Oakland to better short term liquidity because it is a direct obligation of the U.S. Government; and

**WHEREAS**, currently, sixty percent (60%) of the City's and Agency's portfolio consists of Freddie Mac and Fannie Mae; and

**WHEREAS**, continued lack of liquidity would result in the inability of the City and Agency to meet obligations including payroll and vendor payments, resulting in interest and penalties, and impacting City and Agency credit, and forcing the sale of Freddie Mac and Fannie Mae interests at a substantial loss in order to meet these liquidity needs; and

**WHEREAS**, the ability to invest in U.S. Treasuries would enable the City and Agency to diversify these portfolios reducing exposure to substantial financial losses and meeting liquidity needs, i.e. to meet payroll and vendor payments; now, therefore, be it

**RESOLVED**, that the City Council finds and determines the forgoing recitals to be true and correct and hereby adopts and incorporates them into this Resolution; and be it

**FURTHER RESOLVED**, that the City Council finds that investment in United States Treasuries is necessary to avoid substantial financial losses; and be it

**FURTHER RESOLVED**, that pursuant to Ordinance 11062, Section 7(i), the City Council authorizes the City Administrator to invest in United States Treasuries for a period of no more than sixty (60) days in an amount not to exceed twenty percent (20%) of the City and Agency portfolios; and be it

**FURTHER RESOLVED**, that the City Administrator, the City Treasurer, or the person or persons designated to act on their behalf, are hereby authorized by this Resolution to execute any documents and take any action necessary to make such investments authorized by this resolution.

**FURTHER RESOLVED**, that this Resolution shall take effect immediately upon its passage.

IN COUNCIL, OAKLAND, CALIFORNIA, \_\_\_\_\_, 2008

**PASSED BY THE FOLLOWING VOTE:**

**AYES: - BRUNNER, KERNIGHAN, NADEL, QUAN, BROOKS, REID, CHANG, AND PRESIDENT DE LA FUENTE**

**NOES -**

**ABSENT -**

**ABSTENTION -**

**ATTEST:**

\_\_\_\_\_  
**LATONDA SIMMONS**  
City Clerk and Clerk of the Council of the  
City of Oakland, California

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 OAKLAND

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**REDEVELOPMENT AGENCY  
 OF THE CITY OF OAKLAND**

RESOLUTION No. \_\_\_\_\_ C.M.S.

**RESOLUTION OF THE REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND  
 APPROVING THE INVESTMENT IN US TREASURY SECURITIES FOR A NOT-TO-  
 EXCEED 60-DAY PERIOD AND IN AN AMOUNT NOT TO EXCEED 20% OF THE  
 CITY PORTFOLIO; AND AUTHORIZING EXECUTION OF DOCUMENTS AND  
 TAKING OF ALL NECESSARY ACTIONS RELATING TO MAKING SUCH  
 INVESTMENTS**

**WHEREAS**, on November 8, 1988, Oakland voters passed the "Oakland Nuclear Free Zone Act" and the City Council adopted Ordinance No. 11062 implementing the voter mandate, which prohibits the City of Oakland and the Redevelopment Agency (Agency) from investing in United States Treasuries except under specified circumstances; and

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**WHEREAS**, currently, the City has \$40 million and the Agency has \$32.5 million invested in LAIF; and

**WHEREAS**, investing in U.S. Treasuries would enable the City of Oakland to better short term liquidity because it is a direct obligation of the U.S. Government; and

**WHEREAS**, currently, sixty percent (60%) of the City's and Agency's portfolio consists of Freddie Mac and Fannie Mae; and

**WHEREAS**, continued lack of liquidity would result in the inability of the City and Agency to meet obligations including payroll and vendor payments, resulting in interest and penalties, and impacting City and Agency credit, and forcing the sale of Freddie Mac and Fannie Mae interests at a substantial loss in order to meet these liquidity needs; and

**WHEREAS**, the ability to invest in U.S. Treasuries would enable the City and Agency to diversify these portfolios reducing exposure to substantial financial losses and meeting liquidity needs, i.e. to meet payroll and vendor payments; now, therefore, be it

**RESOLVED**: That the Agency finds and determines the forgoing recitals to be true and correct and hereby adopts and incorporates them into this Resolution; and be it

**FURTHER RESOLVED**: That the Agency finds that investment in United States Treasuries is necessary to avoid substantial financial losses; and be it

**FURTHER RESOLVED**: That pursuant to Ordinance 11062, Section 7(i), the Agency authorizes the Agency Administrator to invest in United States Treasuries for a period of no more than sixty (60) days in an amount not to exceed twenty percent (20%) of the City and Agency portfolios; and be it

**FURTHER RESOLVED**: That the Agency Administrator, the Agency Treasurer, or the person or persons designated to act on their behalf, are hereby authorized by this Resolution to execute any documents and take any action necessary to make such investments authorized by this resolution.

**FURTHER RESOLVED**: That this Resolution shall take effect immediately upon its passage.

IN AGENCY, OAKLAND, CALIFORNIA, \_\_\_\_\_, 2008

**PASSED BY THE FOLLOWING VOTE:**

AYES - BRUNNER, KERNIGHAN, NADEL, QUAN, BROOKS, REID, CHANG, AND  
CHAIRPERSON DE LA FUENTE

NOES -

ABSENT -

ABSTENTION -

ATTEST:

\_\_\_\_\_  
LATONDA SIMMONS  
Secretary of the Redevelopment Agency  
of the City of Oakland, California