OFFICE OF THE CITY CLERK
OAKLAND
2006 FEB 16 PM 4:09

CITY OF OAKLAND
COUNCIL AGENDA REPORT

TO: Office of the City Administrator
ATTN: Deborah Edgerly
FROM: Finance and Management Agency
DATE: February 28, 2006

RE: Cash Management Report for Quarter ended December 31, 2005

SUMMARY

Government Code 53600 et. seq. requires the delivery of a quarterly report to the local agency's chief executive officer, internal auditor and legislative body. The current Investment Policy for the City of Oakland (the "City") and the Redevelopment Agency (the "Agency") also requires delivery of the report.

In accordance with the California Government Code and with the Investment Policy for the City and the Agency, the attached Cash Management Report dated January 31, 2005, provides information on the investments of the City's Operating Fund and the Agency's Operating Fund for the quarter ended December 31, 2005. The report summarizes the characteristics of the investment portfolios, along with attachments showing the Funds' monthly transactions and holdings for the quarter ended December 31, 2005.

The report is presented for Council's information and review only and requires no Council action.

FISCAL IMPACTS

This is an informational report. There is no fiscal impact.

BACKGROUND

The report presents information regarding the portfolios' composition including safety, creditworthiness, liquidity and diversity. The report confirms that as of December 31, 2005, the portfolios are in compliance with the Investment Policy of the City for Fiscal Year 2005-2006. The portfolios' credit quality remains high and well within Investment Policy parameters. Liquidity remains sufficient to meet projected cash flow needs. The report also provides each portfolio's current market value and yield as of December 31, 2005, as well as comparisons to other market benchmarks. The report also confirms that no leverage was utilized nor derivatives held during the reporting period. Finally, the report reviews key economic factors, which may affect the portfolios and potential investment results.

DISABILITY AND SENIOR CITIZEN ACCESS

None

SUSTAINABLE OPPORTUNITIES

Economic: The Cash Management Report summarizes the characteristics of the investment portfolios for the quarter. The portfolios' credit quality remains high and well within the parameters of the City's Investment Policy. Moreover, liquidity remains sufficient to meet the City's projected needs.

Environmental: To the extent that new investment opportunities are found in companies involved in environmentally positive activities, the City will be supporting these actions.

Social Equity: The City's policy is to invest, when possible, in companies that promote the use and production of renewable energy resources and any other types of socially responsible investments. Optimization of the portfolios while observing those key areas will produce interest earnings to the General Fund. These monies may be available for services to disadvantaged areas, or enhanced recreational or social venues. During the fourth quarter, the City continued to purchase investments from socially responsible companies. Furthermore, the Treasury Division is making every effort to identify and purchase additional qualifying investments from renewable energy and other socially responsible companies.

RECOMMENDATION: Staff recommends Council's acceptance of this informational report.

ACTION REQUESTED: Staff requests that Council accept this informational report.

Respectfully Submitted,

William E. Noland
Director, Finance and Management Agency

Prepared by:
Katano Kasaine
Treasury Manager

APPROVED AND FORWARDED TO THE
FINANCE AND MANAGEMENT COMMITTEE:

OFFICE OF THE CITY ADMINISTRATOR

CITY OF OAKLAND AND OAKLAND REDEVELOPMENT AGENCY
CASH MANAGEMENT REPORT
FOR QUARTER ENDED DECEMBER 31, 2005

PREPARED BY
FINANCE AND MANAGEMENT AGENCY
TREASURY DIVISION

JANUARY 31, 2005

CITY OF OAKLAND AND OAKLAND REDEVELOPMENT AGENCY
CASH MANAGEMENT REPORT
FOR QUARTER ENDED DECEMBER 31, 2005

I. ECONOMIC REVIEW

MARKET OVERVIEW

The U.S. economy ended 2005 on a surprisingly soft note as consumer spending grew at the slowest rate since 2001 and businesses were less eager to boost investment. After growing at an average rate of nearly 4 percent over the past 10 quarters, gross domestic product, the broadest measure of economic activity within U.S. borders, expanded at a weak 1.1 percent annual rate in the fourth quarter.

Consumer spending, which fuels two-thirds of the economy, also grew at only a 1.1 percent rate, sharply below the third-quarter rate and the weakest since a 1 percent gain in second quarter of 2001. This weak growth in consumer spending contributed greatly to the slowdown in overall economic growth in the fourth quarter. Low business investment levels also contributed toward the low rate of economic growth. Businesses raised their investments at a scant 2.8 percent annual rate in the fourth quarter, less than half the third quarter's 8.5 percent and the weakest for any quarter since the first quarter of 2003.

Although hiring slumped slightly in the fourth quarter, the unemployment rate fell slightly from 5 to 4.90 percent. Employment reports for December show a decrease in initial claims for jobless benefits falling to 291,000 jobs, the lowest level in over 5 years. This decrease in claims was much larger than analysts on Wall Street had forecasted, suggesting generally robust labor market conditions in spite of slowed economic growth.

INTEREST RATES

Inflation continues to be a central focus, with the Federal Reserve increasing the federal funds twice in the fourth quarter of 2005. The Federal Open Market Committee (the "FOMC") decided on November 1, 2005, to raise its target for the federal funds rate by 25 basis points from 3.75 to 4.00 percent (1 percent equals 100 basis points). On December 13, 2005, the FOMC again raised its target for the federal funds rate for the thirteenth time by another 25 basis points to 4.25 percent. These increases were largely in response to elevated energy prices and hurricane-related disruptions.

In spite of the rate increases, the Federal Reserve remained optimistic about the economy. The rate hikes will again slightly increase borrowing costs for many businesses and consumers. The FOMC concluded that inflation risks remain balanced for now, but it will continue to monitor developments that could pose inflation risks.

Rather than take a position on the future direction of interest rates, we expect to continue to manage the investments of the City and the Agency Operating Fund Portfolios consistent with the City's policy objectives and with a primary focus on meeting liquidity needs.

II. CITY OF OAKLAND

PORTFOLIO REVIEW

The City's Portfolio balances decreased from $332.39 million on September 30, 2005, to $303.76 million by December 31, 2005. The decrease was due to $44.45 million of Port of Oakland debt service payments, City debt service payments of approximately $13.71 million and payment of normal operating expenses, such as payroll and vendor payments, which were offset by the receipt of property tax revenues of approximately $84.03 million and business tax revenues of approximately $1.26 million.

PORTFOLIO RATING

In October 2005, Fitch assigned its highest managed fund credit rating of *AAA* and market risk rating of *V1+* to the City's Operating Fund Portfolio. The *AAA* credit rating reflects the highest credit quality based on asset diversification, management strength and operational capabilities. The *V1+* market risk rating represents the lowest market risk that can be expected with no loss of principal value even in adverse market conditions. Fitch's market risk ratings reflect the rating agency's assessment of relative market risks and total return stability in the portfolio based on analyses of various market indicators such as interest rates, liquidity and leverage risk, if any. As a condition of maintaining these ratings, the City provides monthly information to Fitch for review of the Operating Fund Portfolio activity and holdings.

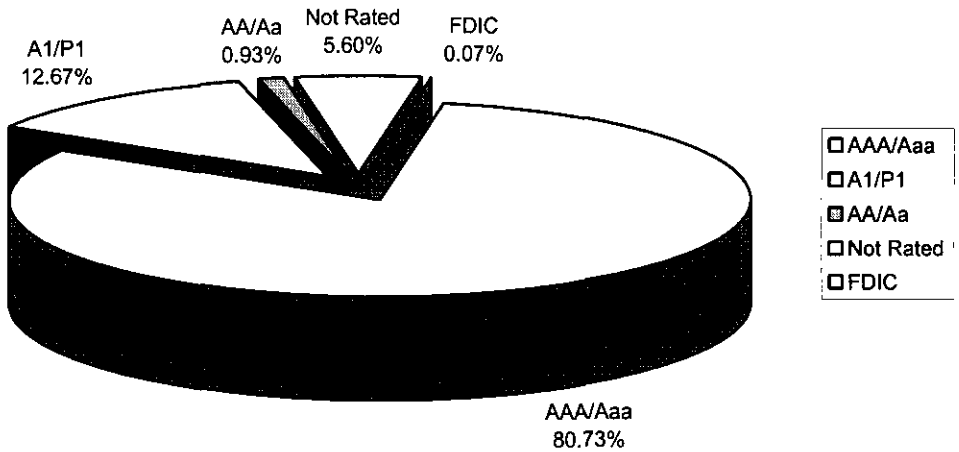
PORTFOLIO COMPOSITION

The Portfolio continues to comply with all provisions of the City's adopted Investment Policy for Fiscal Year 2005-2006, including compliance with applicable local ordinances and resolutions such as Nuclear Free Zone, Linked Banking, and Tobacco Divestiture. In addition, the City will invest, when possible, in companies that promote the use and production of renewable energy resources and any other type of socially responsible investments.

The following discussion addresses the City's investment portfolio characteristics in terms of the Investment Policy's four objectives: safety, liquidity, diversity and return. Portfolio detail for each month of the current quarter is attached to this report.

Preservation of Capital/Safety. In the chart below, the City's holdings are depicted by credit rating category as of December 31, 2005. Approximately 80.73 percent of Operating Fund investments was rated in the AAA/Aaa category while 12.67 percent are rated in the A1/P1 category, and 0.93 percent are rated in the AA/Aa category. At 5.60 percent, primary unrated holdings represent the Fund's investments in the Local Agency Investment Fund ("LAIF"). FDIC-insured Certificates of Deposit constituted less than 1 percent of the total Operating Fund.

City of Oakland Operating Fund
Portfolio Credit Quality
(As of 12/31/05)



Liquidity. Liquidity continues to be a primary objective when making investment decisions for the Operating Pool portfolio. With ongoing capital projects at the Port and within the City, and to ensure that sufficient liquidity is available to meet day-to-day expenditures, the City maintains a sufficient "cushion" in money market funds to meet unanticipated project expenditures.

Debt service payable from the City's Operating Pool for the Port and the City for the six months following December 31, 2005, is approximately $78 million. Consequently, staff will continue to invest in short-term instruments and money markets as investment tools to maintain adequate short-term liquidity.

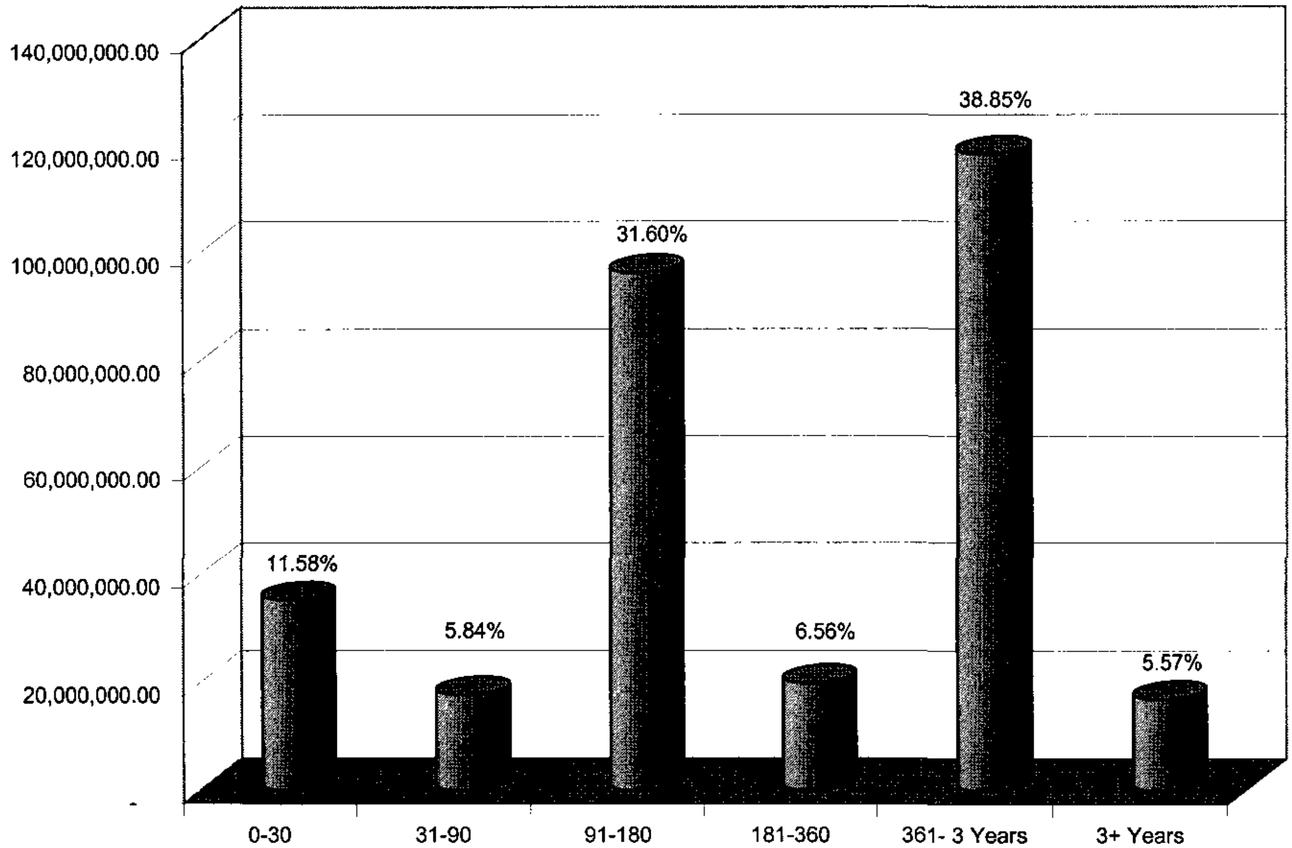
Investments maturing over the next six months are as follows:

Days	Amount(s)	Percent
0-30	$ 35,310,000	11.57%
31-180	$114,179,000	37.44%
Total	**$149,489,000**	**49.01%**

The total amount maturing within 180 days includes $17 million in LAIF and $10.31 million in money market funds, both of which are considered to have a one-day maturity due to the ability to withdraw funds daily.

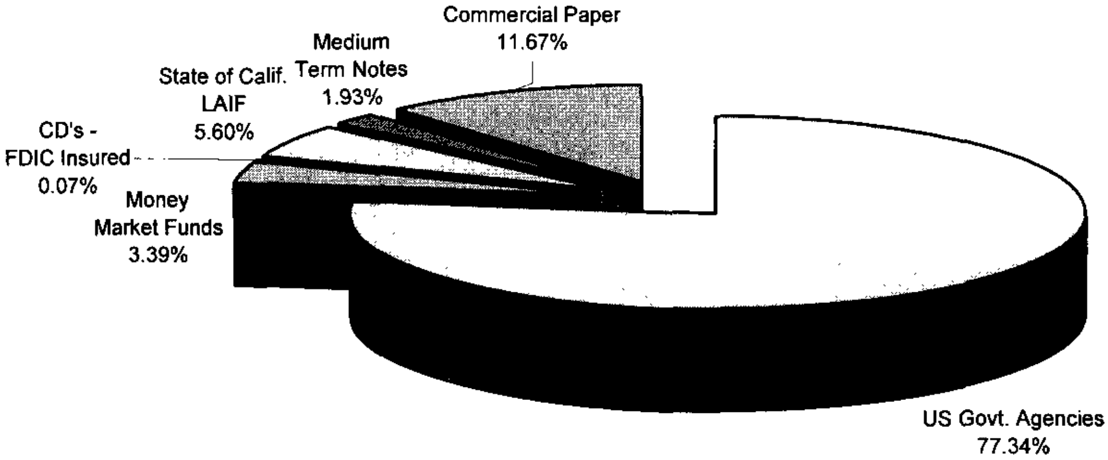
The following graph depicts the Operating Fund Portfolio by dollars invested and the percentage in each maturity range as of December 31, 2005.

City of Oakland Operating Fund
Portfolio Maturity
(As of 12/31/05)



Diversity. To reduce the risks of investing, the portfolio is diversified among a variety of financial instruments, as depicted by the following chart. In addition to limiting the types of investments permissible in any one category as outlined in the Investment Policy, no more than 5 percent of the total cash portfolio may be invested in any one issue. This single-issue provision does not apply to money market funds or to LAIF, as they each are backed by a large portfolio of highly diversified assets.

City of Oakland Operating Fund
Portfolio Diversity
(As of 12/31/05)



Derivatives. The Operating Fund Portfolio contained no derivative instruments during this reporting period.

Yield. Total interest earned for the quarter ended December 31, 2005, was approximately $2.47 million. The effective rate of return on total assets in the Operating Fund Portfolio for month-end December 31, 2005, was 3.48 percent. The City's Portfolio yield was lower than that of LAIF and the month-end spot yield on the 6-month Treasury bill each month in the quarter. The performance comparison to LAIF must be considered in light of LAIF's historical tendency to lag behind market changes in both rising and falling interest rate environments. It continues to be the City's practice to hold investments to maturity rather than to sell at a loss and adjust to the market's yield curve.

Comparative yields for the quarter are shown below.

City of Oakland Operating Fund
Comparative Annualized Yields
(As of 12/31/05)

As of Month-end	6-month Treasury	LAIF[1]	Operating Fund
October 2005	4.21%	3.46%	3.35%
November 2005	4.30%	3.64%	3.39%
December 2005	4.35%	3.81%	3.48%

[1] *Effective monthly average return.*

Valuation and Leverage. Based on information received from Interactive Data Corporation, the market value of the Operating Fund was $299.72 million, which was below cost by $4.04 million. There was no leverage in the portfolio during the reported period and liquidity was maintained at sufficient levels.

III. OAKLAND REDEVELOPMENT AGENCY

PORTFOLIO REVIEW

The Agency portfolio decreased from a balance of $105 million at the end of September 30, 2005, to $88.35 million at the end of December 31, 2005. This decrease reflects disbursements that included debt service and normal operating expenditures, including payroll and vendor payments.

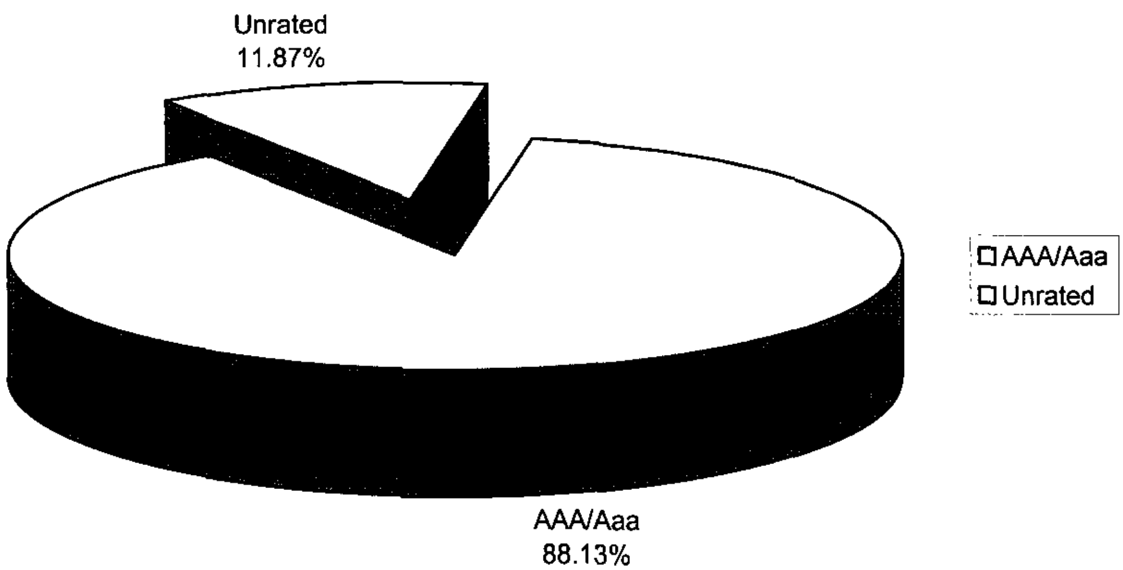
PORTFOLIO COMPOSITION

The Portfolio continues to comply with all provisions of the City's adopted Investment Policy for Fiscal Year 2005-2006, including compliance with applicable local ordinances and resolutions such as Nuclear Free Zone, Linked Banking, and Tobacco Divestiture. In addition, the City will invest, when possible, in companies that promote the use and production of renewable energy resources and any other type of socially responsible investments.

The following discussion addresses the Agency investment portfolio characteristics in terms of the Investment Policy's four objectives of safety, liquidity, diversity and return. Portfolio detail for each of the months in the current quarter is attached to this report.

Preservation of Capital/Safety. The Agency's holdings by credit rating category are depicted in the chart below. Approximately 88.13 percent of the Agency's Operating Fund investments are rated in the AAA category. Primary unrated holdings represent 11.87 percent of the Fund's investments in LAIF.

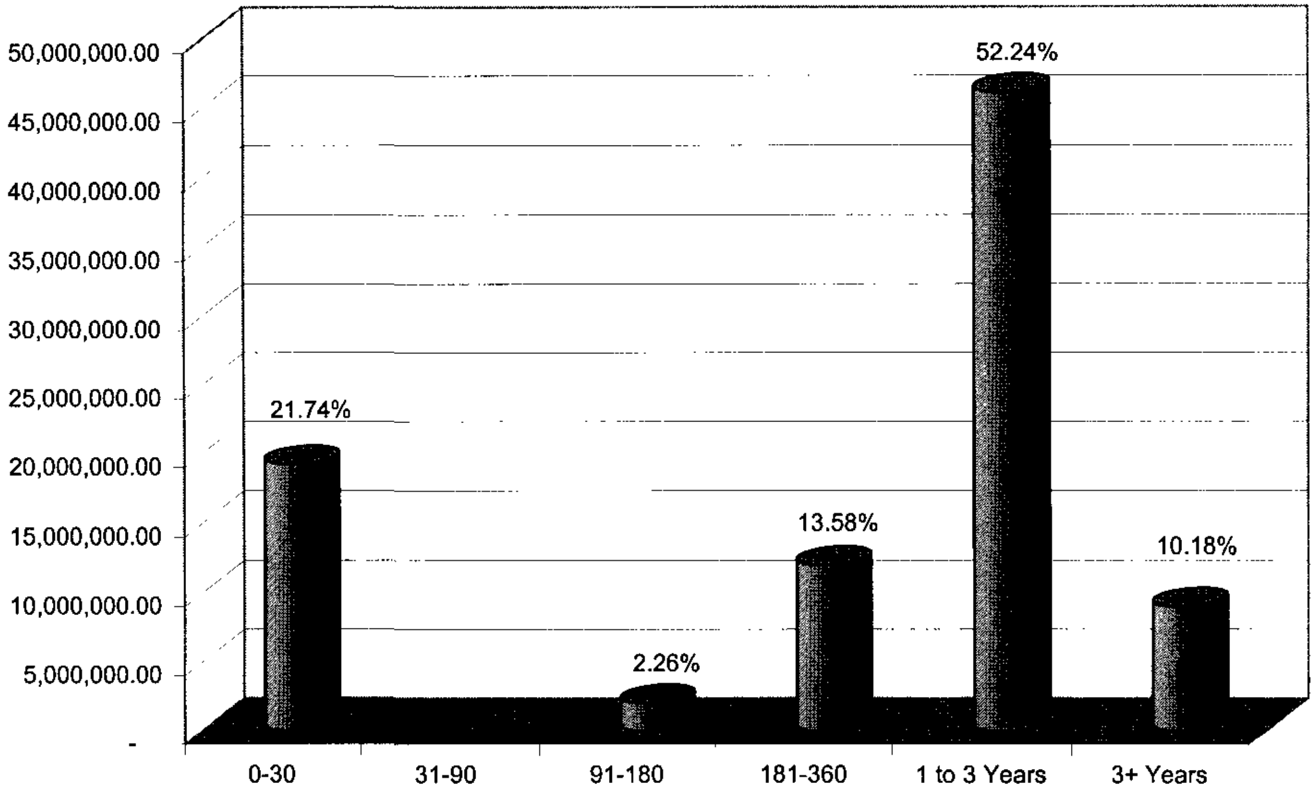
Oakland Redevelopment Agency
Portfolio Credit Quality
(As of 12/31/05)



Liquidity. Liquidity within the Agency's Portfolio remains sufficient to meet all expected cash flow needs of the Agency for the next six months and beyond. The debt service payment for the next six months for the Agency is approximately $12.97 million. The Agency also maintains sufficient "cushion" in highly liquid instruments to meet unanticipated project expenditures.

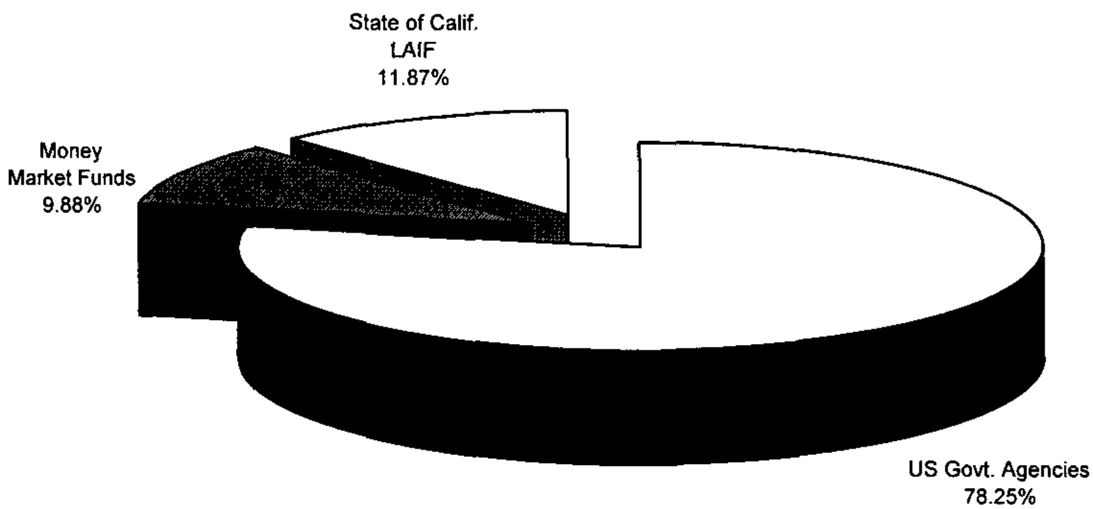
The following chart depicts the Agency's Portfolio by percentage and dollars invested in each maturity range.

Oakland Redevelopment Agency
Portfolio Maturity
(As of 12/31/05)



Diversity. To reduce the risks of investing, the portfolio is diversified among a variety of instruments, as depicted by the following chart. In addition to limiting the types of investment in any one category, as outlined in the Investment Policy, no more than 5 percent of the total cash portfolio may be invested in any one issue.

Oakland Redevelopment Agency
Portfolio Diversity
(As of 12/31/05)



Derivatives. The Agency Portfolio contained no derivative instruments during this reporting period.

Yield. Total interest earned for the quarter ended December 31, 2005, was approximately $851,000. The effective rate of return on total assets in the Agency's Portfolio was 3.42% as of December 31, 2005. During the quarter, the Agency Portfolio's yield was lower than that of LAIF and the month-end spot yield on the 6-month Treasury bill each month in the quarter. The performance comparison to LAIF must be considered in light of LAIF's historical tendency to lag market changes in both rising and falling interest rate environments.

Comparative yields for the quarter are shown below.

Oakland Redevelopment Agency
Comparative Annualized Yields
(As of 12/31/05)

As of Month-end	6-month Treasury	LAIF[1]	ORA
October 2005	4.21%	3.46%	3.37%
November 2005	4.30%	3.64%	3.48%
December 2005	4.35%	3.81%	3.42%

[1] *Effective monthly average return*

Valuation and Leverage. Based on information received from Interactive Data Corporation, the market value of the Agency portfolio for the quarter ended December 31, 2005 was $86.89 million, which was below cost by $1.46 million. There was no leverage in the portfolio during the reporting period and liquidity was maintained at sufficient levels.

TREASURY YIELD CURVE