

**CITY OF OAKLAND
COUNCIL AGENDA REPORT**

OFFICE OF THE CITY CLERK
2006 SEP 12 PM 10:52

TO: Office of the City Administrator
ATTN: Deborah A. Ederly
FROM: Finance and Management Agency
DATE: September 12, 2006

RE: Cash Management Report for the Quarter ended June 30, 2006

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 June 30, 2006, provides information on the investments of the City's Operating Fund and the Agency's Operating Fund for the quarter ended June 30, 2006. The report summarizes the characteristics of the investment portfolios, along with attachments showing the Funds' monthly transactions and holdings for the quarter ended June 30, 2006.

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 June 30, 2006, 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 June 30, 2006, 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.

Item _____
Finance & Management Committee
September 12, 2006

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.

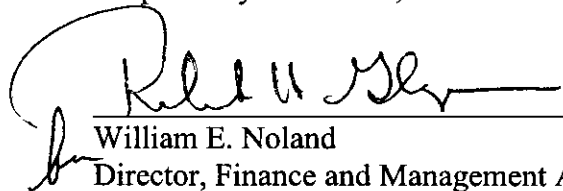
Environmental: To the extent that new investment opportunities are found in companies involved in environmentally positive activities, the City will be supporting these actions.

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 THE QUARTER ENDED JUNE 30, 2006**

**PREPARED BY THE
FINANCE AND MANAGEMENT AGENCY
TREASURY DIVISION**

JULY 31, 2006

**CITY OF OAKLAND AND OAKLAND REDEVELOPMENT AGENCY
CASH MANAGEMENT REPORT
FOR QUARTER ENDED JUNE 30, 2006**

I. ECONOMIC REVIEW

MARKET OVERVIEW

Economists reported the U.S. economy expanded at a 3 percent annual rate in April 2006 through June 2006, little more than half the previous quarter's pace, reflecting a slowdown in consumer spending that may restrain growth through the middle of next year. The economy was flat during the quarter due to a weakening housing market and consumer spending is slowing to about half the first quarter's pace.

Orders for U.S.-made durable goods rose more than forecast in June 2006, pointing to momentum in manufacturing that is likely to keep the economy growing even as the housing market sputters. The Commerce Department reported a 3.1 percent jump in orders following a revised 0.3 percent gain the month before.

According to the Labor Department, the unemployment rate held at a five-year low of 4.6 percent in June 2006 as the economy created 121,000 jobs. The 3.9 percent increase in average hourly wages over the last 12 months was the biggest in five years.

Higher energy prices are also siphoning cash from consumer pocketbooks. The retail price of a gallon of regular gasoline averaged \$2.85 during the quarter. Cars and light trucks sold at an average annual pace of 16.4 million a month in the quarter, down from 16.9 million a month in the previous quarter.

Residential investment fell at an annual rate of 8 percent last quarter after increasing at a 3.3 percent pace the first three months of the year. Slowing home-price gains and higher borrowing costs are making it harder for homeowners to extract equity from their houses. According to the Mortgage Bankers Association, applications for mortgage refinancing have fallen by almost half in the past 12 months.

INTEREST RATES

On May 10, 2006, the Federal Reserve policymakers raised the main U.S. interest rate to 5 percent and suggested they may not be finished with the nearly two-year run of increases. Additional increases "may yet be needed," the Fed said, even as the central bank predicts economic growth to slow from the first quarter's 4.8 percent annual pace, the fastest in more than two years. The Federal Open Market Committee's statement said the timing of moves will depend on data, giving itself room to pause if necessary. Once again on June 29, 2006, the Federal Reserve raised its overnight lending rate between banks by a quarter-point to 5.25 percent and said further increases depend on the prospects for growth and inflation.

II. CITY OF OAKLAND

PORTFOLIO REVIEW

The City's Portfolio balances decreased slightly from \$327.22 million on March 31, 2006, to \$321.93 million by June 30, 2006. The decrease was due to the repayment of the 2005-2006 Tax and Revenue Anticipation Notes, debt service payments, normal operating expenses, and offset by business tax and property tax receipts.

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.

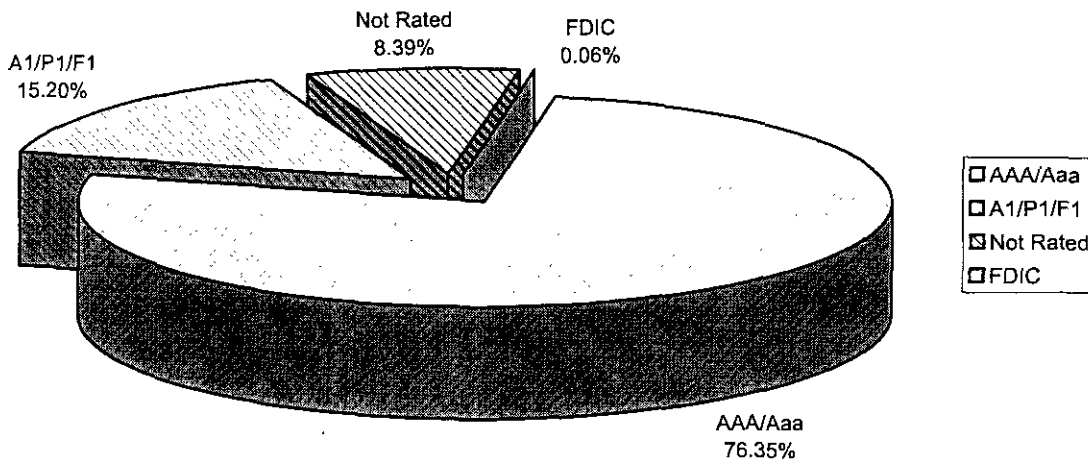
PORTFOLIO COMPOSITION

The Portfolio continues to comply with all provisions of the City's adopted Investment Policy for Fiscal Year 2006-2007, 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 June 30, 2006. Approximately 76.35 percent of Operating Fund investments was rated in the AAA/Aaa category while 15.20 percent is rated in the A1/P1/F1 category. At 8.39 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 6/30/06)**



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 June 30, 2006, is approximately \$122 million. Consequently, staff will continue to invest in short-term instruments and money markets as investment tools to maintain adequate short-term liquidity.

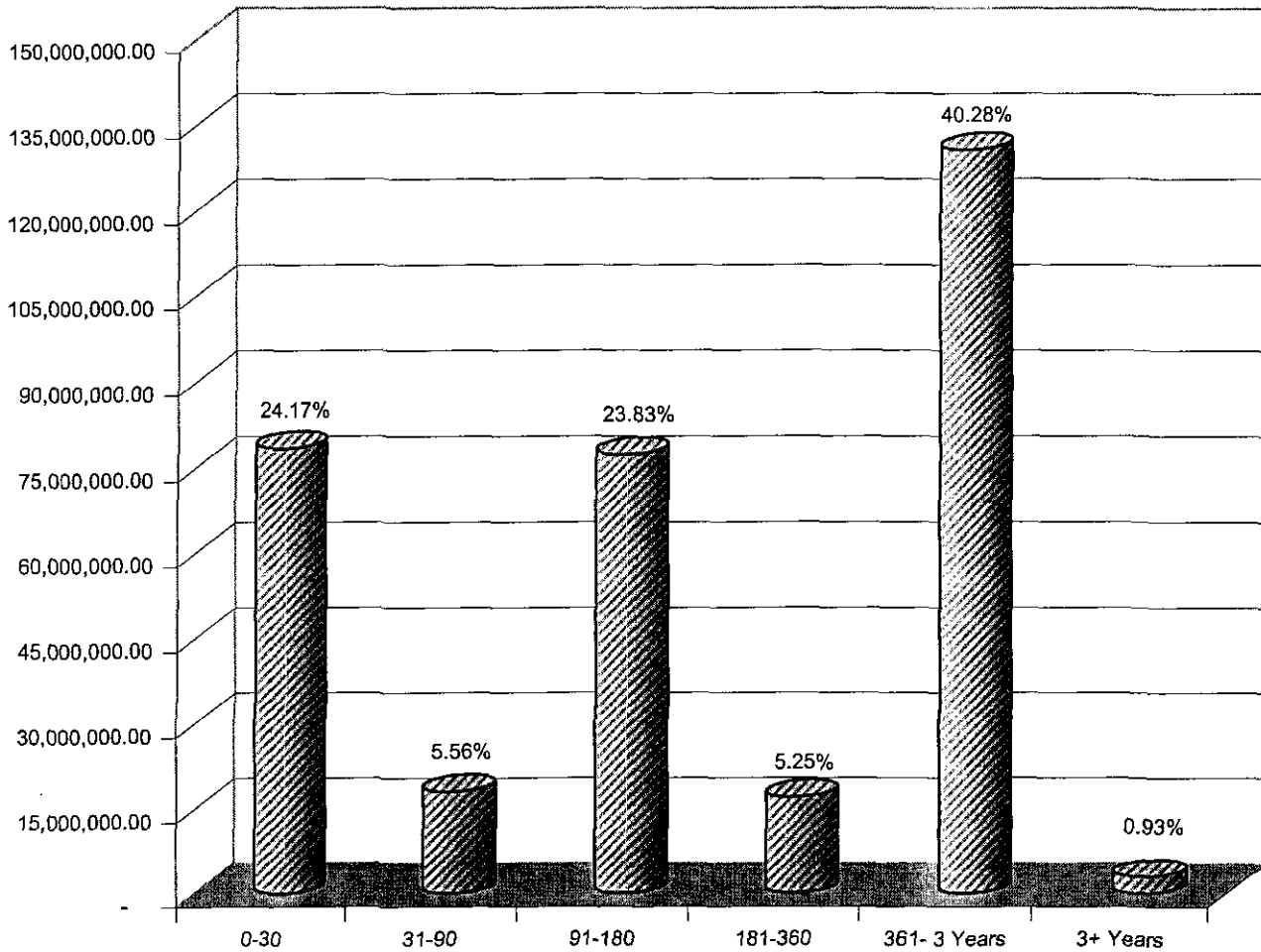
Investments maturing over the next six months are as follows:

Days	Amount(s)	Percent
0-30	\$78,310,000	24.17%
31-180	\$ 95,199,000	29.39%
Total	\$173,509,000	53.56%

The total amount maturing within 180 days includes \$27 million in LAIF and \$37.31 million in money market funds, both of which are considered to have a one-day maturity due to the ability to withdraw funds daily.

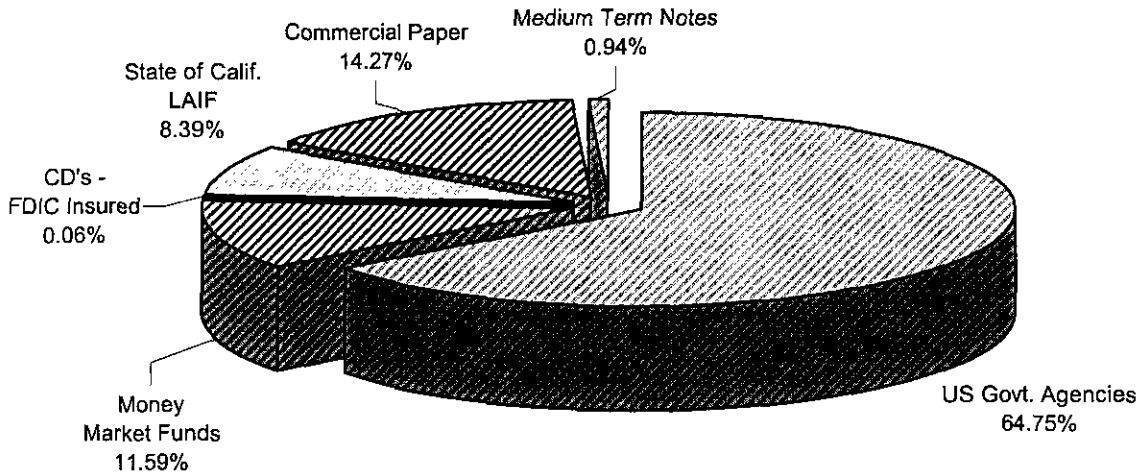
The following graph depicts the Operating Fund Portfolio by dollars invested and the percentage in each maturity range as of June 30, 2006.

**City of Oakland Operating Fund
Portfolio Maturity
(As of 6/30/06)**



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 6/30/06)**



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

Yield. Total interest earned for the quarter ended June 30, 2006, was approximately \$3.71 million. The effective rate of return on total assets in the Operating Fund Portfolio for month-end June 30, 2006, was 4.30 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 6/30/06)**

As of Month-end	6-month Treasury	LAIF¹	Operating Fund
April 2006	4.94%	4.30%	3.99%
May 2006	5.06%	4.56%	4.09%
June 2006	5.23%	4.70%	4.30%

¹*Effective monthly average return.*

Valuation and Leverage. Based on information received from Interactive Data Corporation, the market value of the Operating Fund was \$317.9 million, which was below book value by \$3.99 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 increased from a balance of \$106.91 million at the end of March 31, 2006, to \$148.21 million at the end of June 30, 2006. This increase reflects the receipt of tax increment revenues of approximately \$39.3 million, which was offset by disbursements that included debt service payments of approximately \$366,000 and normal operating expenditures, including payroll and vendor payments.

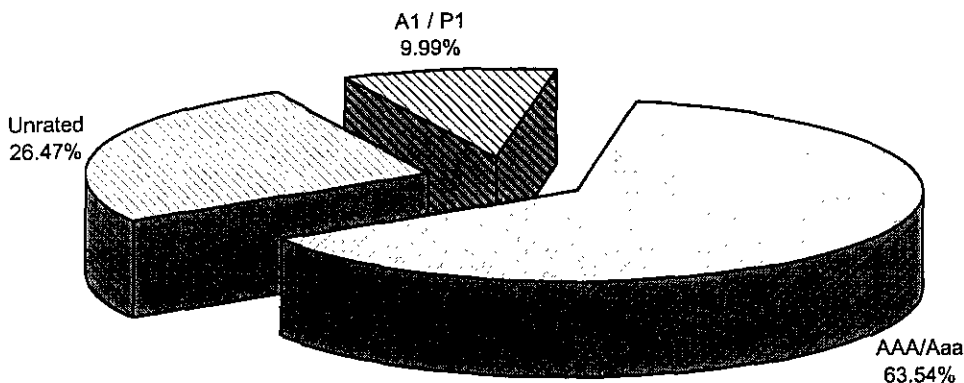
PORTFOLIO COMPOSITION

The Portfolio continues to comply with all provisions of the City's adopted Investment Policy for Fiscal Year 2006-2007, 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 63.54 percent of the Agency's Operating Fund investments are rated in the AAA category and 9.99 percent in the A1/P1 category. Primary unrated holdings represent 26.47 percent of the Fund's investments in LAIF.

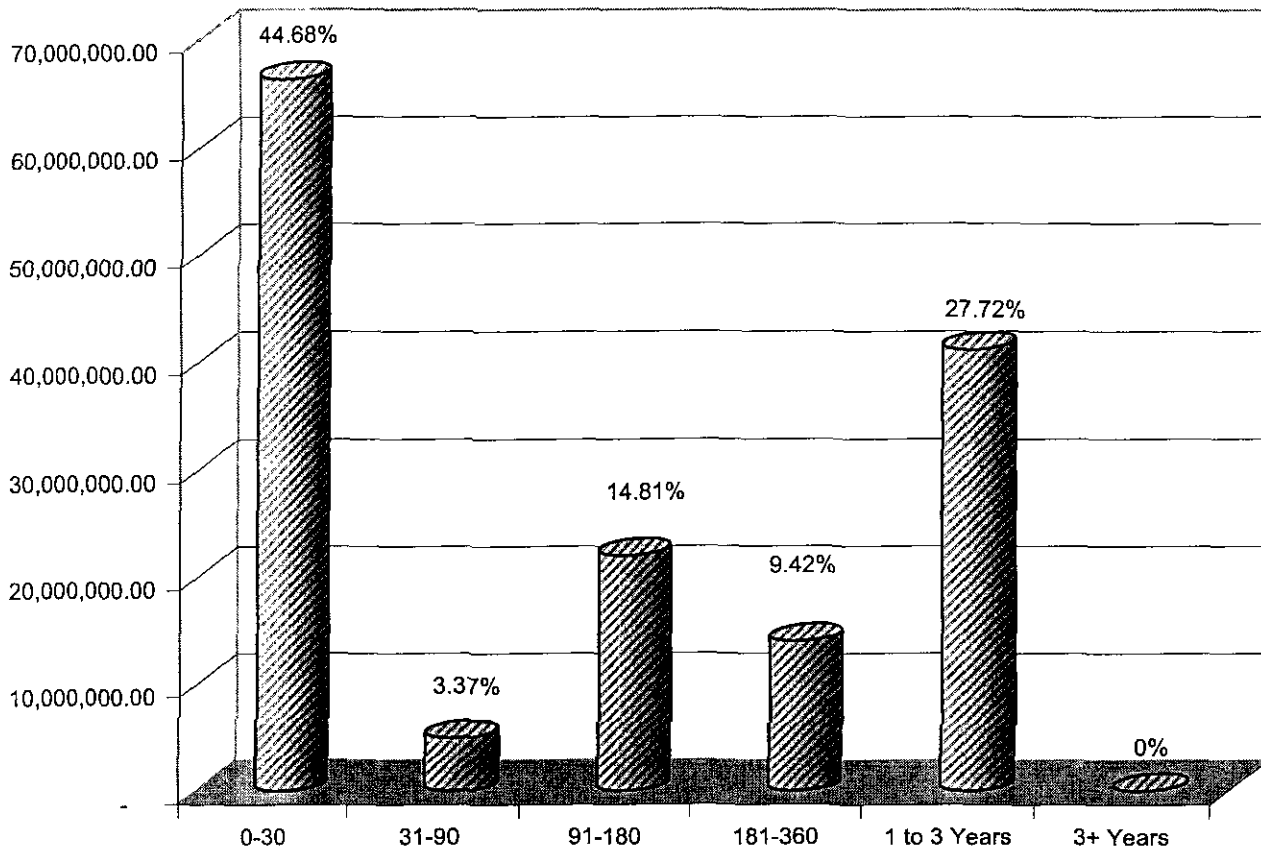
**Oakland Redevelopment Agency
Portfolio Credit Quality
(As of 6/30/06)**



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 \$14.47 million. The Agency also maintains sufficient “cushion” in highly liquid instruments to meet unanticipated project expenditures.

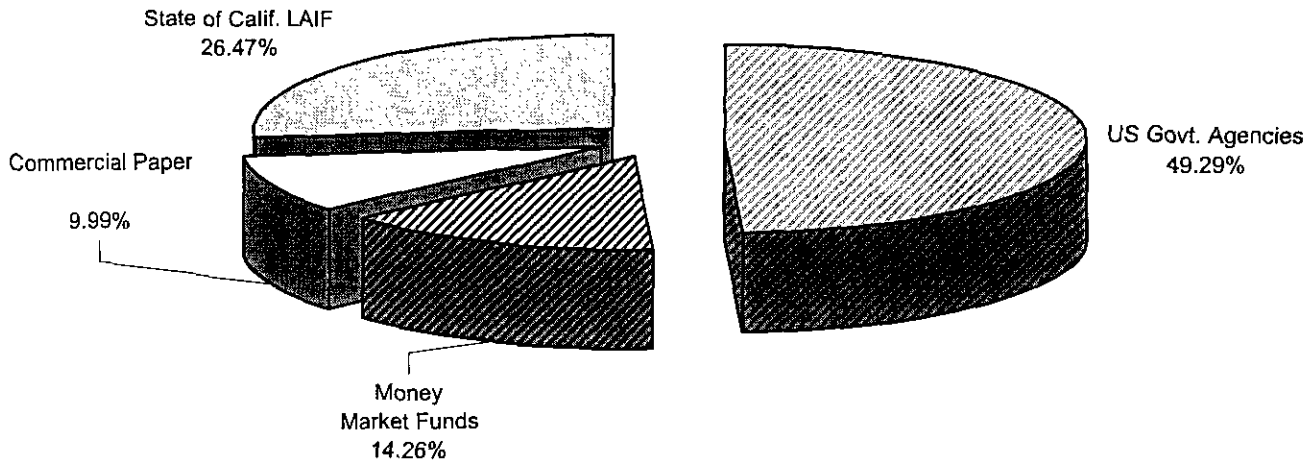
The following chart depicts the Agency’s Portfolio by percentage and dollars invested in each maturity range.

**Oakland Redevelopment Agency
Portfolio Maturity
(As of 6/30/06)**



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 6/30/06)**



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

Yield. Total interest earned for the quarter ended June 30, 2006, was approximately \$1,090,995. The effective rate of return on total assets in the Agency’s Portfolio was 4.05% as of June 30, 2006. 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 6/30/06)**

As of Month-end	6-month Treasury	LAIF ¹	ORA
April 2006	4.94%	4.30%	3.91%
May 2006	5.06%	4.56%	3.90%
June 2006	5.23%	4.70%	4.05%

¹Effective 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 June 30, 2006 was \$146.46 million, which was below book value by \$1.74 million. There was no leverage in the portfolio during the reporting period and liquidity was maintained at sufficient levels.

TREASURY YIELD CURVE

