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OFFICE OF THE CITY CLERK  
OAKLAND  
2009 SEP -3 AM 9:11

# CITY OF OAKLAND

## AGENDA REPORT

TO: Office of the City Administrator  
ATTN: Dan Lindheim  
FROM: Finance and Management Agency  
DATE: September 15, 2009

RE: **Cash Management Report for the Quarter Ended June 30, 2009**

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### SUMMARY

The 2009-2010 Investment Policy for the City of Oakland (the "City") and the Redevelopment Agency (the "Agency") requires the City to submit a quarterly investment report to the City Council. The report includes the following information: type of investment, issuer, date of maturity, and par and dollar amount invested.

In accordance with the Investment Policy for the City and the Agency, the attached Cash Management Report provides information on the investments of the City's Operating Fund and the Agency's Operating Fund for the quarter ended June 30, 2009. 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, 2009.

This 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

This report presents information regarding the portfolios' composition including safety, creditworthiness, liquidity, and diversity. As of June 30, 2009, the portfolios are in compliance with the Investment Policy of the City for Fiscal Year 2009-2010. The portfolios' credit quality remains high and well within Investment Policy parameters. Liquidity remains sufficient to meet projected cash flow needs for the next six months. Provided in the attached report are each portfolio's current market value and yield as of June 30, 2009, as well as comparisons to other market benchmarks. This report confirms that no leverage was utilized nor derivatives held during the reporting period. Also included are reviews of key economic factors, which may affect the portfolios and potential investment results.

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

Finance & Management Committee  
September 15, 2009

## **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. Furthermore, the Treasury Division is making every effort to identify and purchase additional qualifying investments from renewable energy and other socially responsible companies.

## **DISABILITY AND SENIOR CITIZEN ACCESS**

There are no disability and senior citizen access issues identified in this report.

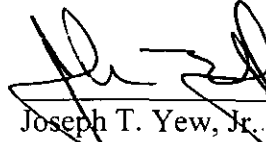
## **RECOMMENDATION(S) AND RATIONALE**

Staff recommends Council's acceptance of this informational report.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff requests that Council accept this informational report.

Respectfully Submitted,



Joseph T. Yew, Jr.  
Director, Finance and Management Agency

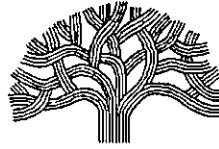
Prepared by:  
Katano Kasaine, Treasury Manager  
Treasury Division

APPROVED AND FORWARDED TO THE  
FINANCE AND MANAGEMENT COMMITTEE:

  
Office of the City Administrator

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OAKLAND

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**CITY OF OAKLAND AND OAKLAND REDEVELOPMENT AGENCY  
CASH MANAGEMENT REPORT  
FOR THE QUARTER ENDED JUNE 30, 2009**

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

**JULY 31, 2009**

**CITY OF OAKLAND AND OAKLAND REDEVELOPMENT AGENCY  
CASH MANAGEMENT REPORT  
FOR QUARTER ENDED JUNE 30, 2009**

**I. ECONOMIC REVIEW**

MARKET OVERVIEW

The U.S. economy's contracted at the slowest pace on record in the second quarter of 2009 as reported by the Bureau of Economic Analysis. The second quarter's real domestic product (value of goods and services produced in the world's largest economy) contracted by 1.0% on an annualized seasonally adjusted rate, from the previous quarter's revised drop of 6.4%, according to a report released by the Commerce Department.

The smaller decrease in real domestic product reflected a much smaller decrease in business investment, including inventory investment and exports, and an upturn in government spending. Offsetting these movements was a downturn in consumer spending and a smaller decline in imports.

Consumer prices shot up in June by the largest amount in 11 months and the Labor Department said the inflation at the consumer level rose by 0.7% in June, slightly higher than the 0.6% that economists were expecting. It was the biggest one-month gain since a 0.7% increase since July 2008. The upward surge was driven by a 7.4% rise in energy prices, reflecting a 17.3% increase in gasoline prices, the biggest one-month jump in gas prices since a 20.9% spurt in September 2005 after Hurricane Katrina had shut Gulf Coast refineries. The big jump was seen as a temporary blip, however. Inflation is not expected to be a problem any time soon given a severe recession which is keeping a lid on prices.

U.S. foreclosure filings more than doubled in the second quarter from a year earlier as falling home prices left borrowers owing more on mortgages than their properties were worth. One in every 171 households was foreclosed on, received a default notice or was warned of a pending auction as reported by Realty Trac Inc. A U.S. economist at Merrill Lynch said, "Rising foreclosures are putting downward pressure on prices, increasing the possibility that homeowners will go upside-down on their mortgages." That will cause more losses in mortgage portfolios and less willingness from investors to securitize mortgages and therefore fewer mortgages.

June's unemployment rate increases was less than economists were anticipating, but the overall number of jobs was substantially higher than expected. The unemployment rate crept up to 9.5% in June— its highest level since 1983, according to the latest report from the U.S. Department of Labor. Total job losses for the month were 467,000, far above the 365,000 economists had expected. Of the sectors hurt most by payroll losses, none was worse than the service-providing industry, which saw a loss of 244,000 jobs. That was followed by the goods-producing industry, which shed 223,000 jobs.

### Interest Rates

On April 29, 2009, the Federal Reserve Board said it sees signs the recession is easing and that the economic outlook has improved modestly. The Federal Reserve Board Chairman and his colleagues agreed to leave the key interest rate (federal funds) at a record low of between zero and 0.25%, and decided against taking any new steps to shore up the economy. Although the economic outlook has improved modestly since the March meeting, partly reflecting some easing of financial market conditions, economic activity is likely to remain weak for a time. Nonetheless, the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth.

On June 24, 2009, the Federal Reserve Board held monetary policy steady and said the U.S. economic recession was slightly improving, as it signaled its worries over a possible troubling downward spiral in prices were fading. The Federal Reserve will employ all available tools to promote economic recovery and to preserve price stability. The central bank said it had decided to hold overnight interest rates in a zero to 0.25% range and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. As previously announced, to provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve will purchase agency mortgage-backed securities and government debt by the end of the year. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.

## **II. CITY OF OAKLAND**

### PORTFOLIO REVIEW

The City's Portfolio balances decreased from \$273.42 million on March 31, 2009 to \$252.41 million by June 30, 2009. The decrease was due to repayment of 2008-2009 Tax and Revenue Anticipation Notes, debt service payments, normal operating expenses, and vendor payments offset by receipt of property tax and business tax revenues.

### PORTFOLIO RATING

In November 2008, Fitch assigned its highest managed fund credit rating of *AAA* and market risk rating of *VI+* to the City's Operating Fund Portfolio (attached). The *AAA* credit rating reflects the highest credit quality based on asset diversification, management strength and operational capabilities. The *VI+* 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.

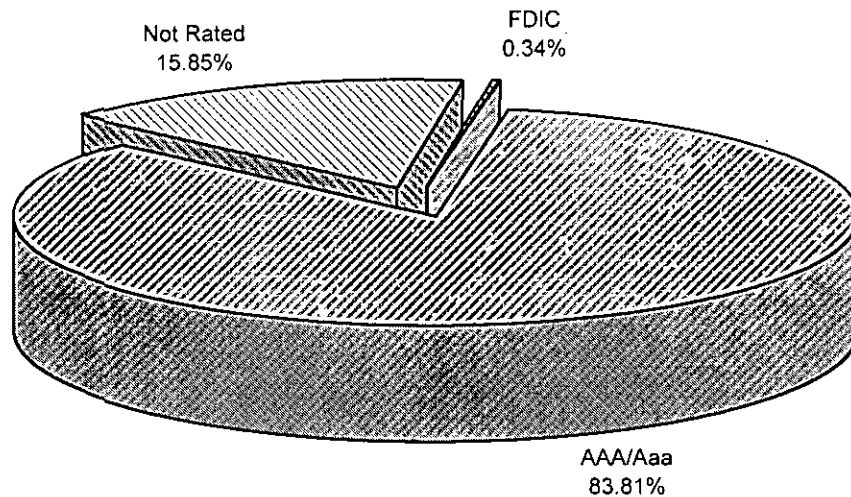
PORTFOLIO COMPOSITION

The Portfolio continues to comply with all provisions of the City’s adopted Investment Policy for Fiscal Year 2009-2010, including compliance with applicable local ordinances and resolutions such as Nuclear Free Zone, Linked Banking, and Tobacco Divestiture.

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, 2009. Approximately 83.81% of Operating Fund investments were rated in the AAA/Aaa category while 15.85%, primary unrated holdings represent the Fund’s investments in the Local Agency Investment Fund (“LAIF”). FDIC-insured Certificates of Deposit constituted less than 1% of the total Operating Fund.

**City of Oakland Operating Fund  
Portfolio Credit Quality  
(As of 6/30/09)**



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, 2009, is approximately \$175.25 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:

<b>Days</b>	<b>Amount(s)</b>	<b>Percent</b>
0-30	\$ 102,110,000	40.44%
31-180	\$ 109,849,000	43.52%
<b>Total</b>	<b>\$ 211,959,000</b>	<b>83.96%</b>

Five Year Historical Portfolio Balance: Listed below is the balance for the operating fund portfolio for each of the last 5 years.

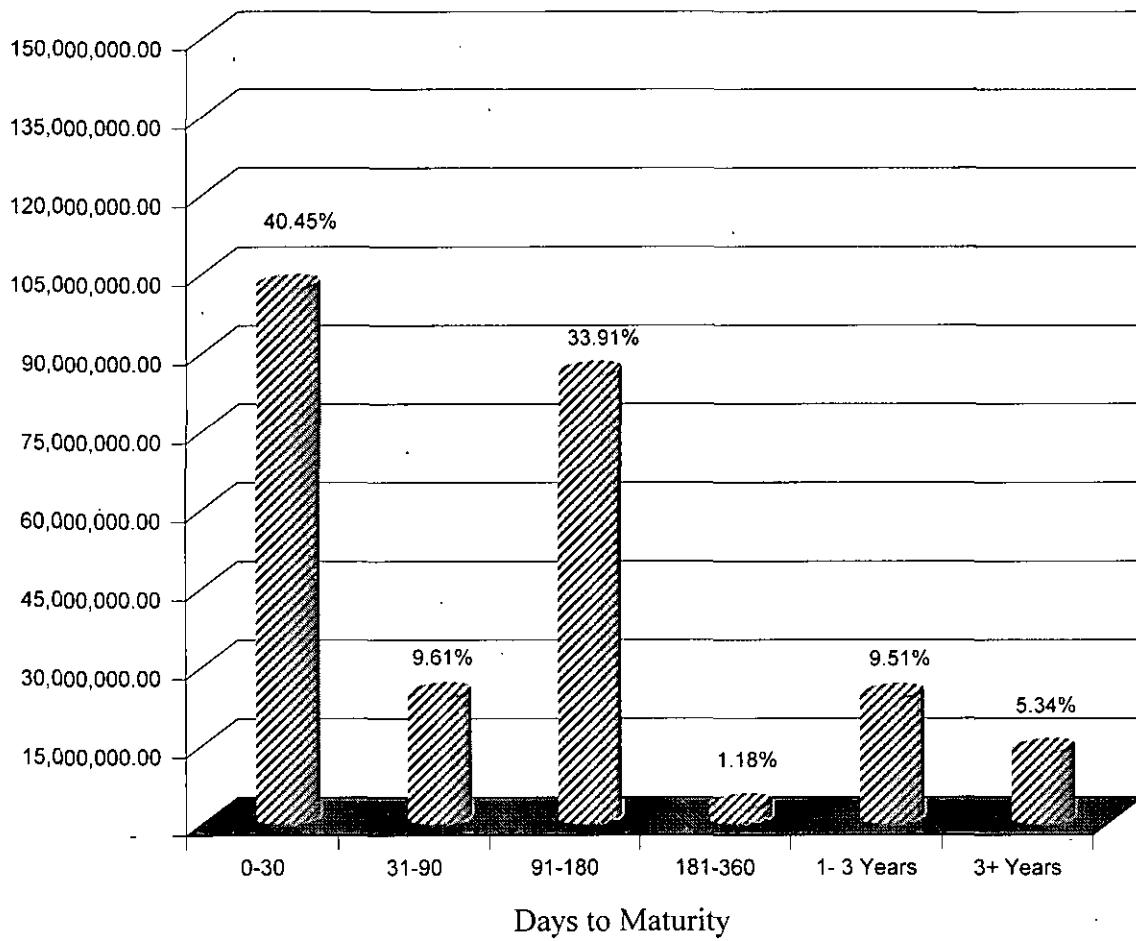
<b>Year</b>	<b>Amount</b>	<b>Percent Increase/Decrease From Prior Year</b>
June 2009	\$ 252,406,000	(11%)
June 2008	\$ 281,000,000	(14%)
June 2007	\$ 321,070,000	(<1%)
June 2006	\$ 321,930,000	(2%)
June 2005	\$ 327,130,000	-

The total amount maturing within 180 days includes \$40 million in LAIF and \$50.1 million in money market funds, both of which are considered to have a one-day maturity due to the ability to withdraw funds daily.



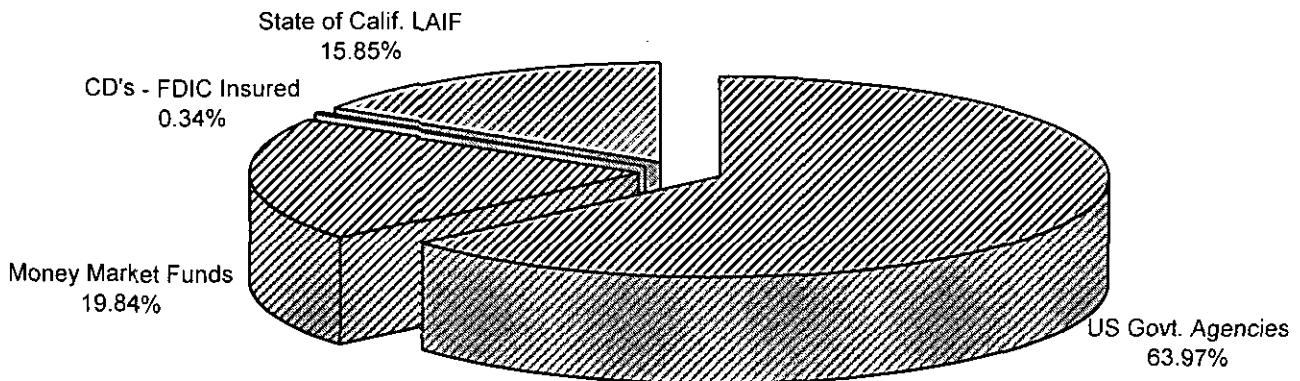
The following graph depicts the Operating Fund Portfolio by dollars invested and the percentage in each maturity range as of June 30, 2009.

**City of Oakland Operating Fund  
Portfolio Maturity  
(As of 6/30/09)**



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% 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 6/30/09)**



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

Yield. Total interest earned for the quarter ended June 30, 2009, was approximately \$971,601. The effective rate of return on total assets in the Operating Fund Portfolio for month-end June 30, 2009, was 1.12% as compared to 1.69% for March 31, 2009. 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. The primary investment objective of the City for the portfolio is to maximize safety, liquidity, and return in that respective order.

Comparative yields for the quarter are shown below.

**City of Oakland Operating Fund  
Comparative Annualized Yields  
(As of 6/30/09)**

<b>As of Month-end</b>	<b>6-month Treasury</b>	<b>LAIF<sup>1</sup></b>	<b>Operating Fund</b>
April 2009	0.27%	1.61%	1.33%
May 2009	0.28%	1.53%	1.53%
June 2009	0.34%	1.38%	1.12%

<sup>1</sup>Effective monthly average return.

Benchmark Comparison.

The effective rate of return on total assets in the Operating Fund Portfolio for the month ending June 30, 2009 was 1.12%. The City's Operating Fund Portfolio outperformed the 6-month Treasury Bill which yielded a rate of 0.34% at the end of June 30, 2009. The Local Agency Investment Fund ("LAIF"), which ended the month at 1.38%, slightly outperformed the City's Operating Fund Portfolio.

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. The City does not actively sell securities in the portfolio to take advantage of cyclical swings in the market, which could result in the loss of principal. The primary investment objective of the City for the portfolio is to maximize safety, liquidity, and return in that respective order.

Valuation and Leverage. Based on information received from Interactive Data Corporation, the market value of the Operating Fund was \$253.15 million, which was above book value by \$749,276.75. 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's portfolio increased from a balance of \$194.73 million at the end of March 31, 2009 to \$257.56 million at the end of June 30, 2009. Contributing to the portfolio increase was the receipt of \$65.07 million in tax incremental revenues, offset by debt service payments and normal operating expenditures including vendor payments.

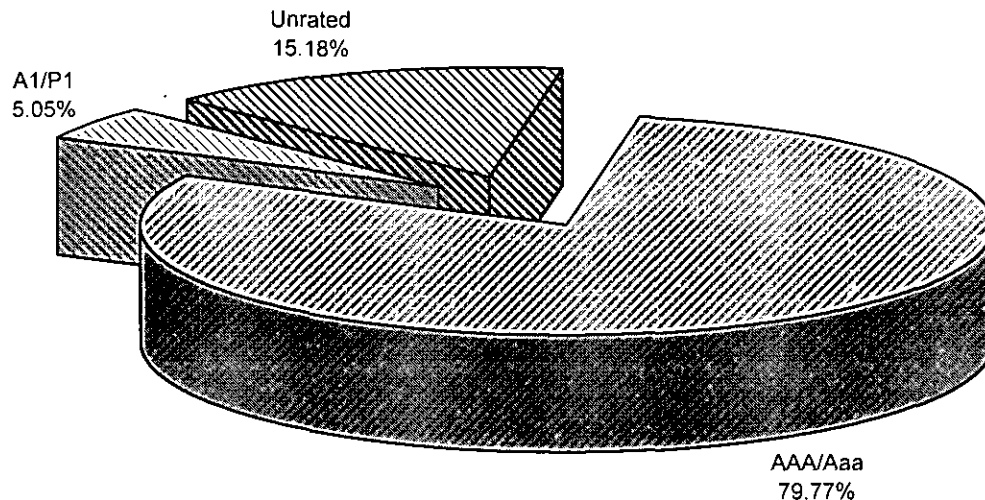
PORTFOLIO COMPOSITION

The Portfolio continues to comply with all provisions of the City's adopted Investment Policy for Fiscal Year 2009-2010, 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 79.77% of the Agency's Operating Fund investments are rated in the AAA category. Primary unrated holdings represent 15.18% of the Fund's investments in LAIF, and A1/P1 ratings represent 5.05% of the Agency's holdings.

**Oakland Redevelopment Agency  
Portfolio Credit Quality  
(As of 6/30/09)**



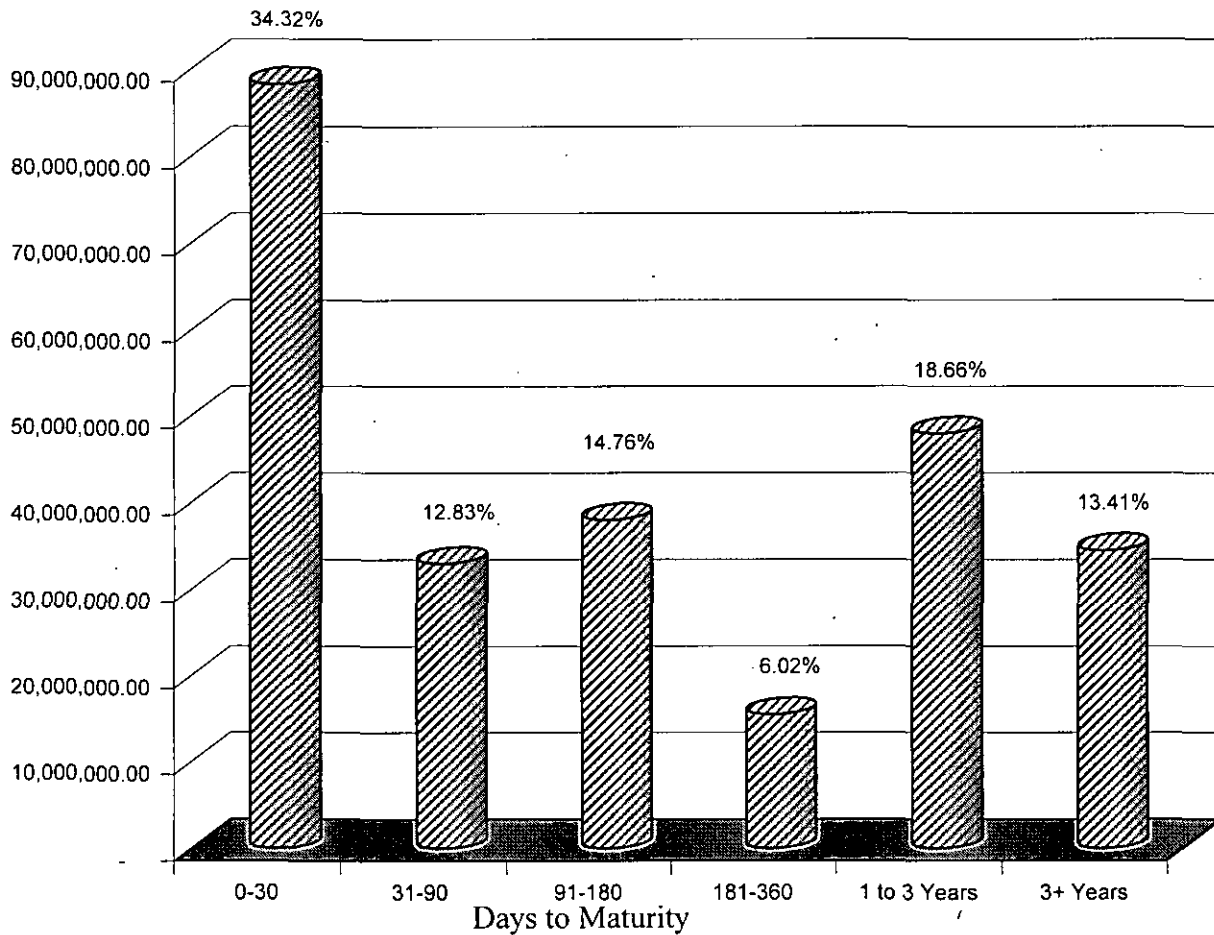
Liquidity. Liquidity within the Agency's Portfolio remains sufficient to meet all expected cash flow needs of the Agency for the next six months and beyond. The debt service payment for the next six months for the Agency is approximately \$24.6 million. The Agency also maintains a sufficient "cushion" in highly liquid instruments to meet unanticipated project expenditures.

Five Year Historical Portfolio Balance: Listed below is the balance for the operating fund portfolio for each of the last 5 years.

Year	Amount	Percent Increase/Decrease From Prior Year
June 2009	\$ 257,561,000	12%
June 2008	\$ 225,380,000	25%
June 2007	\$ 170,100,000	13%
June 2006	\$ 148,210,000	13%
June 2005	\$ 128,210,000	-

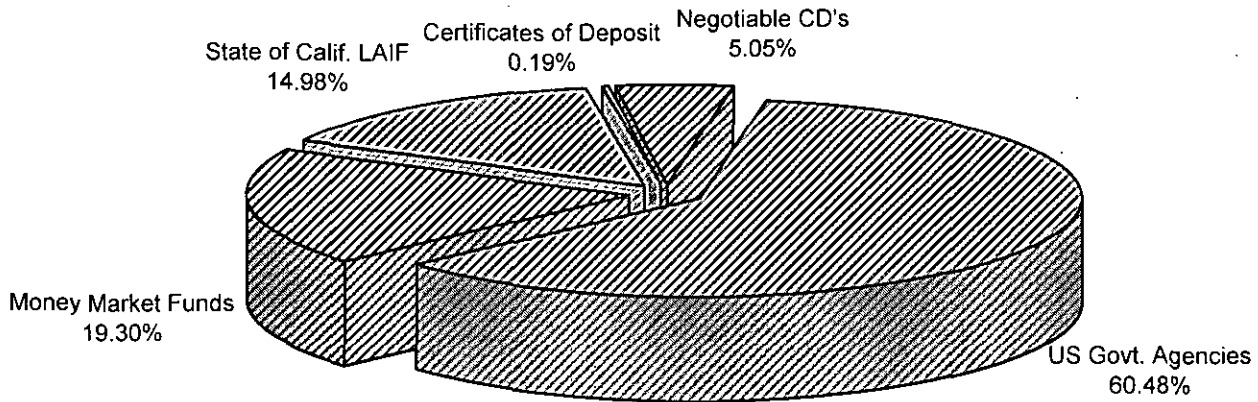
The following chart depicts the Agency's Portfolio by percentage and dollars invested in each maturity range.

**Oakland Redevelopment Agency  
 Portfolio Maturity  
 (As of 6/30/09)**



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% of the total cash portfolio may be invested in any one issue.

**Oakland Redevelopment Agency  
 Portfolio Diversity  
 (As of 6/30/09)**



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

Yield. Total interest earned for the quarter ended June 30, 2009, was approximately \$4.59 million. The effective rate of return on total assets in the Agency's Portfolio was 1.35% for month ending June 30, 2009. The Agency's Portfolio outperformed the 6-month Treasury Bill which yielded a rate of 0.34% at the end of June 30, 2009. The Agency's Portfolio slightly lagged the Local Agency Investment Fund ("LAIF"), which ended the month at 1.38%. 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 6/30/09)**

As of Month-end	6-month Treasury	LAIF <sup>1</sup>	ORA
April 2009	0.27%	1.61%	1.97%
May 2009	0.28%	1.53%	1.56%
June 2009	0.34%	1.38%	1.35%

<sup>1</sup>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 June 30, 2009 was \$258.32 million, which was above book value by \$761610.97. There was no leverage in the portfolio during the reporting period and liquidity was maintained at sufficient levels.

### TREASURY YIELD CURVE

