



## AGENDA REPORT

**TO:** DEANNA J. SANTANA  
CITY ADMINISTRATOR  
**SUBJECT:** Cash Management Report

**FROM:** Katano Kasaine  
**DATE:** August 13, 2013

City Administrator  
Approval

Date

9/11/13

**COUNCIL DISTRICT:** City-Wide

### **RECOMMENDATION**

Staff recommends that the Council accepts the Cash Management Report for the Quarter Ended June 30, 2013.

### **OUTCOME**

This is an informational report.

### **BACKGROUND/LEGISLATIVE HISTORY**

The City and Successor Agency's Portfolio composition includes safety, creditworthiness, liquidity, and diversity. As of June 30, 2013, the portfolios are in compliance with the Investment Policy of the City for Fiscal Year 2012-2013. 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, 2013, as well as comparisons to other market benchmarks. This report confirms that no leverage (use of debt to supplement investments) was utilized nor were derivatives (such as interest rate swaps, futures, or options) held during the reporting period. Also included are reviews of key economic factors which may affect the portfolio's potential investment results.

### **ANALYSIS**

#### Cash Position

The City's Portfolio balances increased from \$454.79 million on March 31, 2013 to \$498.46 million as of June 30, 2013. This increase was mainly due to receipt of \$110.10 million in

Item: \_\_\_\_\_  
Finance and Management Committee  
September 24, 2013

property tax revenues offset by debt service payments of approximately \$77.4 million and other operational payments.

The Successor Agency's portfolio increased from a balance of \$30.01 million as of March 31, 2013 to \$56.99 million as of June 30, 2013. Contributing to the portfolio increase was the receipt of \$38.7 million per the Recognized Obligation Payment Schedule ("ROPS") offset by debt service payments and other vendor payments.

#### *Yield Comparison*

The effective rate of return on total assets in the Operating Fund Portfolio for the month ending June 30, 2013 was 0.30%. The effective rate of return on total assets in the Successor Agency's Fund Portfolio for the month ending June 30, 2013 was 0.40%. The yields are different between the City and Successor Portfolios because currently the City Portfolio is more focused on short term securities due to uncertainties in the amount potentially to be clawed back by the State of California, while the Successor Portfolio has had a more stable long term horizon, thus it had been invested in some longer-term high yielding securities. The Successor and City Portfolio outperformed their benchmark, the 1-year government agencies yield of 0.19% and the Successor and City Portfolio outperformed the yield on the Local Agency Investment Fund (LAIF) of 0.24%.

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. Moreover, 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.

#### PUBLIC OUTREACH/INTEREST

Not applicable.

#### COORDINATION

The Budget Office and City Attorney's Office have reviewed this report.

#### COST SUMMARY/IMPLICATIONS

Since this is an informational report, there are no budget implications associated with the report.

## 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. Liquidity for both portfolios 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 invest in these companies (i.e. Commercial Paper, Medium Term Notes, etc.) if permitted by the City Investment Policy.

**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 not only produce interest earnings to the General Fund, but these monies may be available for services to disadvantaged areas, or enhanced recreational or social venues. Furthermore, the Treasury Division makes every effort to identify and purchase additional qualifying investments from renewable energy and other socially responsible companies.

For questions regarding this report, please contact me at (510) 238-2989.

Respectfully submitted,

  
Katano Kasaine, Treasurer  
Treasury Division

Reviewed by:  
David Jones, Principal Financial Analyst  
Treasury Division

Prepared by:  
Madhukar (Max) Kumar, Treasury Analyst III  
Treasury Division

## Attachments (1)

--Cash Management Report for the Quarter Ended June 30, 2013

Item: \_\_\_\_\_  
Finance and Management Committee  
September 24, 2013

City of Oakland, California  
And the  
City of Oakland-Successor of the  
City of Oakland, California

**Cash Management Report For  
The Quarter Ended  
June 30, 2013  
City Administrator's Office  
Treasury Division**

KATANO KASAINE  
Treasurer

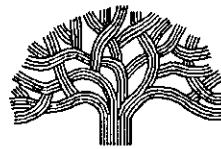
Investment Staff  
David Jones, Principal Financial Analyst  
Max Kumar, Treasury Analyst III  
Benedette de Leon, Treasury Analyst III



**CITY OF OAKLAND  
CASH MANAGEMENT REPORT FOR  
THE QUARTER ENDED JUNE 30, 2013**

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**CITY OF OAKLAND AND CITY OF OAKLAND SUCCESSOR  
CASH MANAGEMENT REPORT  
FOR THE QUARTER ENDED JUNE 30 2013**

**PREPARED BY THE  
CITY ADMINISTRATOR'S OFFICE  
TREASURY DIVISION**

**JULY 31, 2013**

**CITY OF OAKLAND AND OAKLAND SUCCESSOR  
CASH MANAGEMENT REPORT  
FOR THE QUARTER ENDED JUNE 30, 2013**

## **I. ECONOMIC REVIEW**

### MARKET OVERVIEW

According to the U.S Department of Commerce, Real Gross Domestic Product- the output of goods and services produced by labor increased at an annual rate of 1.7% in the second quarter of 2013, which was up from the 1.1% growth in the first quarter of 2013. The U.S. Department of Commerce highlighted that the increase reflected positive contributions from personal consumption expenses (PCE), exports, nonresidential fixed investment, private inventory investment, and residential investment that were partly offset by a negative contribution from federal government spending.

The U.S. Labor Department reported the economy added 195,000 jobs in June and the unemployment rate remained unchanged at 7.6 percent from the previous month. According to the Labor Department, leisure and hospitality added 75,000 jobs, professional and business services added 53,000 jobs, retail trade employment increased by 37,000, health care sector continued to increase and added 20,000 jobs, and financial activities rose by 17,000 in June. Federal government continued to trend down in June and decreased 5,000 jobs.

The Commerce Department reported that consumer spending, which accounts for about 70 % of U.S economic activity, grew at a 1.8 percent rate in the second quarter of 2013 compared to 2.3 percent in the first quarter. Spending slowed slightly because Americans devoted more of their take-home pay to savings. The personal saving rate as a share of after-tax income climbed to 4.5% from 4% in the first quarter. Spending on non-durable goods was up 1.3%, partly reflecting rising petrol prices, while demand for durable goods rose 0.8%, reflecting strength in car sales.

Mortgage rates are increasing, as the housing sector showed mixed signals. The U.S. Department of Commerce reported that U.S housing starts for future home construction unexpectedly fell in June, housing starts dropped 9.9 percent to a seasonally adjusted annual rate of 836,000 units, and this was the lowest level since August 2012. Tighter fiscal policy and slowing global demand contributed to the decrease. Meanwhile, U.S home prices continue to rise and increased 11.9 percent in June amid a tighter supply of homes for sale.

### INTEREST RATES

Inflation and unemployment continue to be the primary concern of the Federal Open Market Committee "FOMC". To support a stronger economic recovery, the Committee will continue its policy accommodation by purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month.

The FOMC left the federal funds target rate unchanged at its January and March policy meetings, stating that the rate would remain in the exceptionally low range of 0 percent to 0.25 percent at least as long as the unemployment rate remains above 6.5 percent and inflation is above 2 percent . The FOMC also kept the rate it charges on direct loans to banks (i.e. the discount rate) steady at 0.75 percent.

## II. CITY OF OAKLAND

### PORTFOLIO REVIEW

The City's Portfolio balances increased from \$454.79 million on March 31, 2013 to \$498.46 million as of June 30, 2013. This increase was mainly due to receipt of \$110.10 million in property tax revenues offset by debt service payments of approximately \$77.4 million and other operational payments.

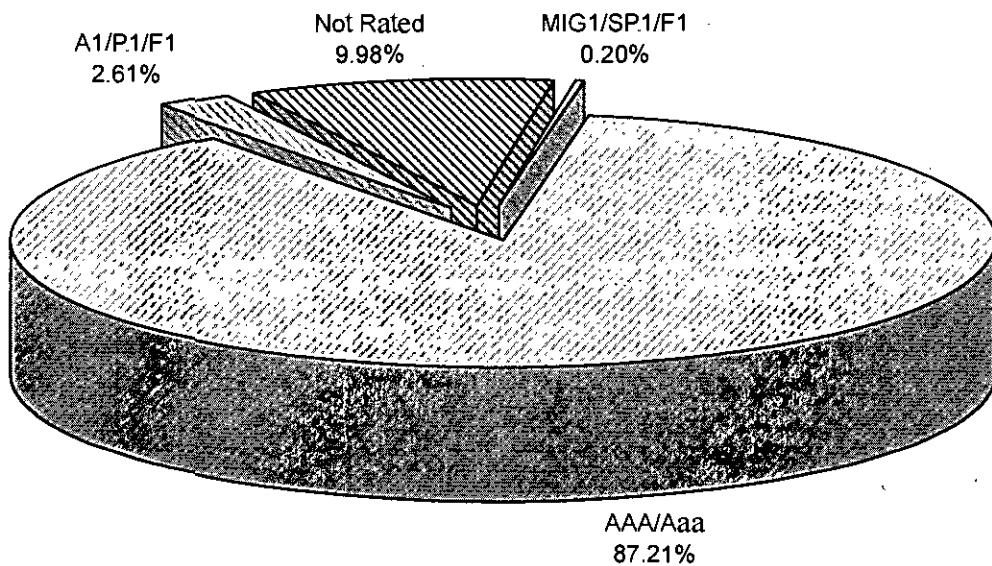
### PORTFOLIO COMPOSITION

The Portfolio continues to comply with all provisions of the City's adopted Investment Policy for Fiscal Year 2012-2013, 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, 2013. Approximately 87.21% of Operating Fund investments were rated in the AAA/Aaa category while 9.98% primary unrated holdings represent the Fund's investments in the Local Agency Investment Fund ("LAIF"). The A1/P1/F1 category contained 2.61%. On August 6, 2011, the government agencies were downgraded by Standard and Poor's Rating Agency to AA+ from AAA. Moody's Investors' Service and Fitch Ratings continue to maintain AAA rating for government agencies. The City's Investment Policy for FY 2012-2013 does not have a rating criteria level for government agencies.

**City of Oakland Operating Fund  
Portfolio Credit Quality  
(As of 6/30/13)**



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, 2013 is approximately \$153 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:

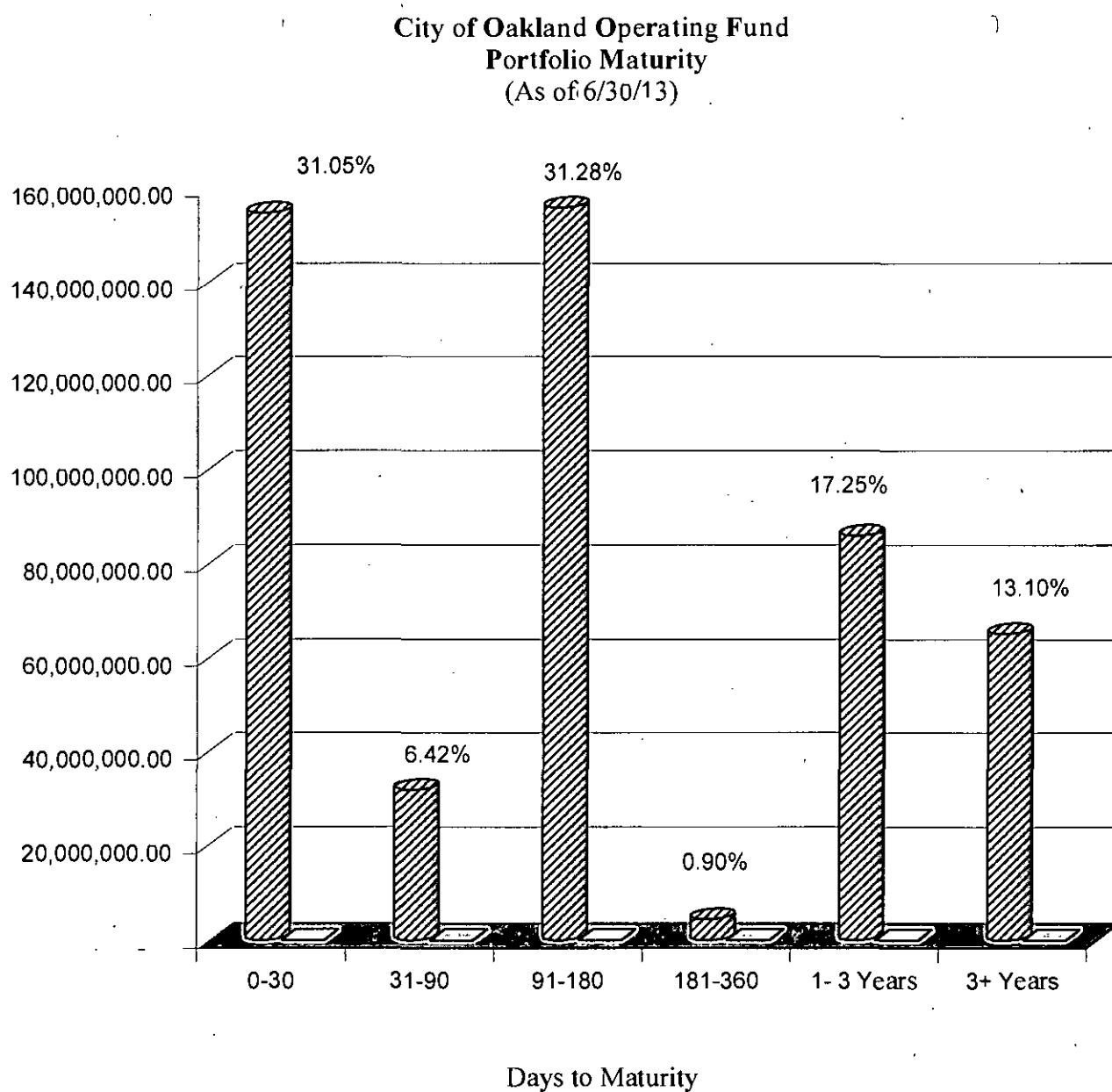
Days	Amount(s)	Percent
0-30	\$ 154,845,570	31.06%
31-180	\$ 188,000,000	37.70%
<b>Total</b>	<b>\$ 342,845,570</b>	<b>68.76%</b>

Investments maturing within 180 days include \$49.74 million in LAIF and \$93.11 million in money market funds, both of which are considered to have a one-day maturity due to the ability to withdraw funds daily.

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

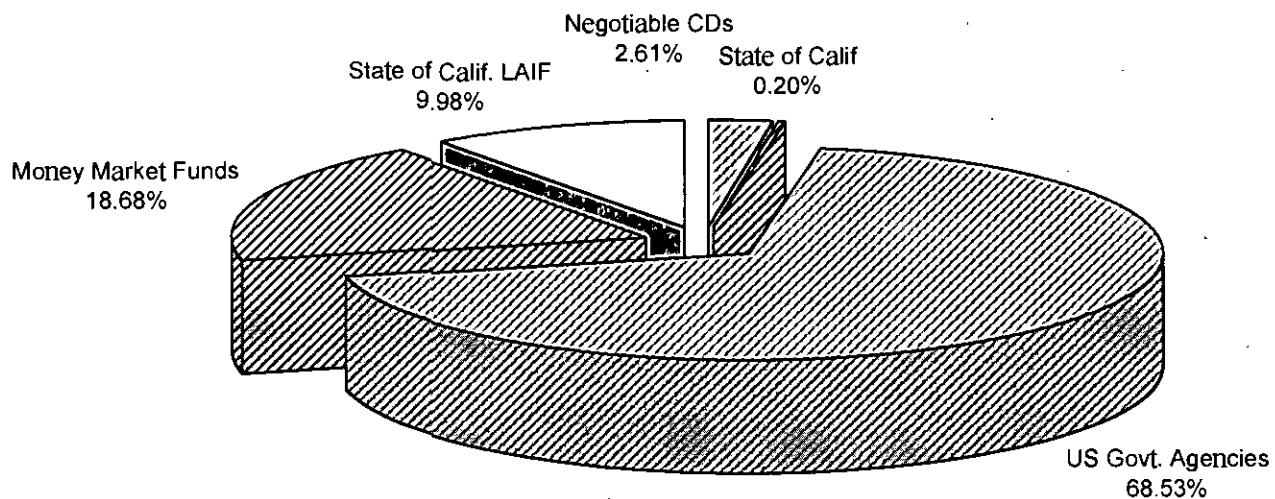
Year	Amount	Percent Increase/Decrease From Prior Year
June 2013	\$ 498,461,212	0.25%
June 2012	\$ 497,228,284	27.85%
June 2011	\$ 388,917,729	26.59%
June 2010	\$ 307,223,911	21.72%
June 2009	\$ 252,406,000	

The following graph depicts the Operating Fund Portfolio by dollars invested and the percentage in each maturity range as of June 30, 2013.



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 6/30/13)**



Derivatives. The Operating Fund Portfolio contained no derivative instruments (interest rate swaps, futures, or options) during this reporting period.

Yield. Total interest earned for the quarter ended June 30, 2013 was approximately \$372,500. The effective rate of return on total assets in the Operating Fund Portfolio for month-end June 30, 2013 was 0.30% as compared to 0.30% for March 31, 2013. 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 6/30/13)**

As of Month-end	1-Year Govt. Agency	LAIF <sup>1</sup>	Operating Fund
April 2013	0.15%	0.26%	0.28%
May 2013	0.16%	0.25%	0.27%
June 2013	0.19%	0.24%	0.30%

<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, 2013 was 0.30%. The City's Operating Fund Portfolio out-performed the 1-year government agency which yielded a rate of 0.19% as of June 30, 2013. The City's Operating Fund Portfolio slightly performed better than the Local Agency Investment Fund ("LAIF"), which ended the month at 0.24%.

As of June 30 2013, the City's Portfolio Fund's average days-to-maturity (ADM) was 371 days versus LAIF's average days-to-maturity (ADM) was 278 days.

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 yield in that respective order.

The summary below provides total portfolio income recognized for the last quarter as compared to the prior quarter and the same quarter one year ago.

<b>TOTAL PORTFOLIO INCOME RECOGNIZED</b>				
	<b>Accrual Basis</b>			
	<b>June 30, 2013</b>	<b>March 31, 2013</b>	<b>June 30, 2012</b>	
<b>Total Portfolio</b>				
<b>Quarter-End</b>				
Total Interest Earnings	\$ 372,500	\$ 368,018	\$ 469,943	
Realized gains (losses) from sales				
Total income recognized	\$ 372,500	\$ 368,018	\$ 469,943	
 <b>Fiscal Year-to-Date</b>				
Total Interest Earnings	\$ 1,427,367	\$ 1,054,867	\$ 1,919,839	
Realized gains (losses) from sales				
Total income recognized	\$ 1,427,367	\$ 1,054,867	\$ 1,919,839	

Valuation and Leverage. Based on information received from Interactive Data Corporation, the market value of the Operating Fund was \$498.46 million, which was below book value by \$910,839. There was no leverage in the portfolio during the reported period, and liquidity was maintained at sufficient levels.

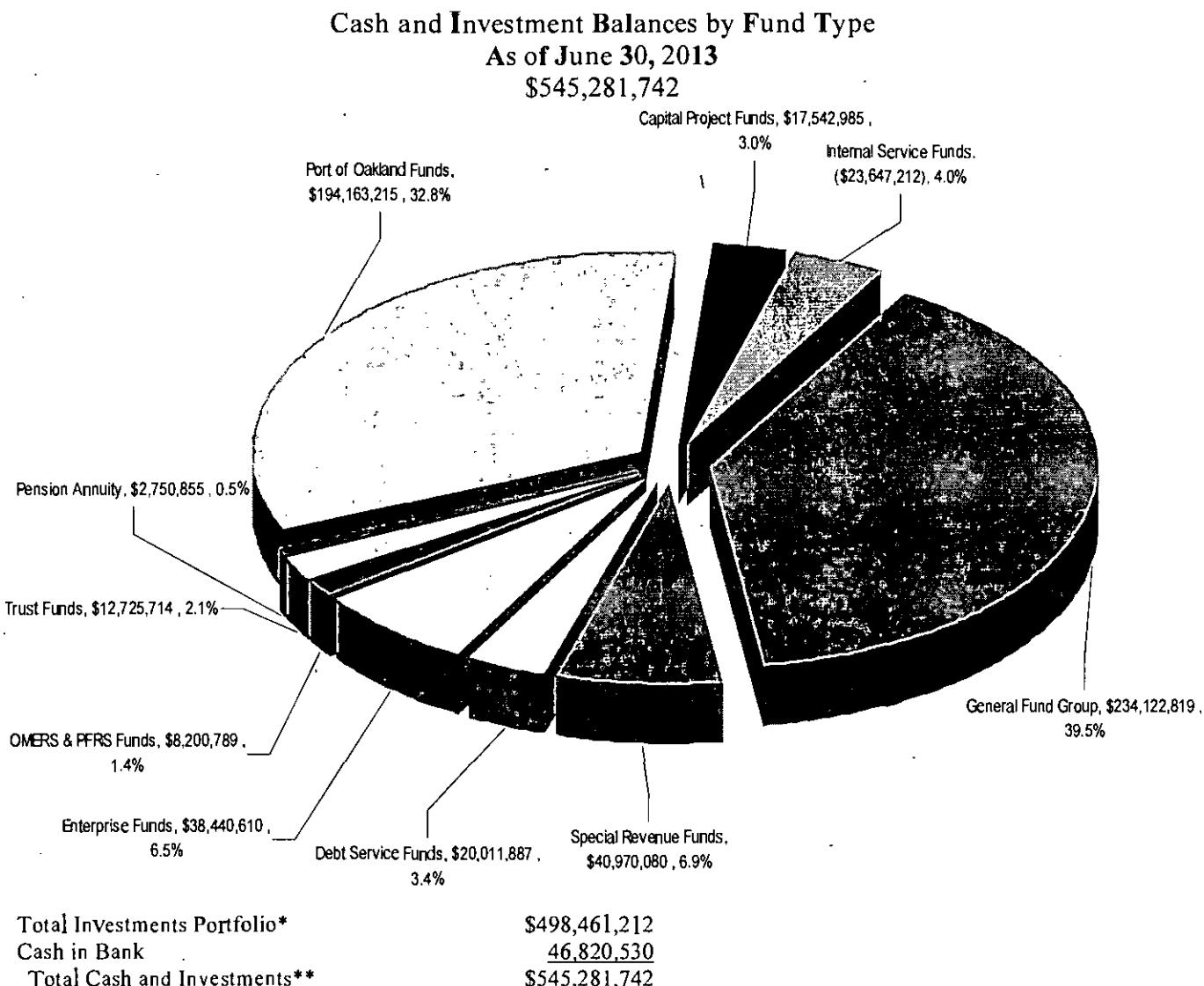
The following table illustrates the net unrealized gains or losses on the portfolio when comparing the portfolio's market value to both its original cost and amortized cost:

<b><u>UNREALIZED GAINS &amp; LOSSES</u></b>			
<b><u>Cash Basis</u></b>		<b><u>Accrual Basis</u></b>	
Market Value	\$ 497,550,374	Market Value	\$ 497,550,374
Original Cost	(498,423,473)	Original Cost	(498,461,212)
Net Unrealized Gain (Loss)	\$ (873,100)	Net Unrealized Gain (Loss)	\$ (910,839)

The City's investment strategy, per the Investment Policy, is generally to hold securities to maturity. The net unrealized gains noted above are "paper gains" where there is an inverse relationship between the changes in market interest rates to the value of investment securities.

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The graph below reflects the reconciliation of investment portfolio balances compared to the City's total cash and investments reflected in the City's Financial System (Oracle).



\* Includes unamortized premiums, discounts, and interest earned but not yet received.

\*\*Per City's Financial System(Oracle)

The net negative funds of \$23.6 million are in the Internal Service Funds.

### III. CITY OF OAKLAND SUCCESSOR PORTFOLIO

#### PORTFOLIO REVIEW

The Successor Agency's portfolio increased from a balance of \$30.01 million as of March 31, 2013 to \$56.99 million as of June 30, 2013. Contributing to the portfolio increase was the receipt of \$38.7 million per the Recognized Obligation Payment Schedule ("ROPS") offset by debt service payments and other vendor payments.

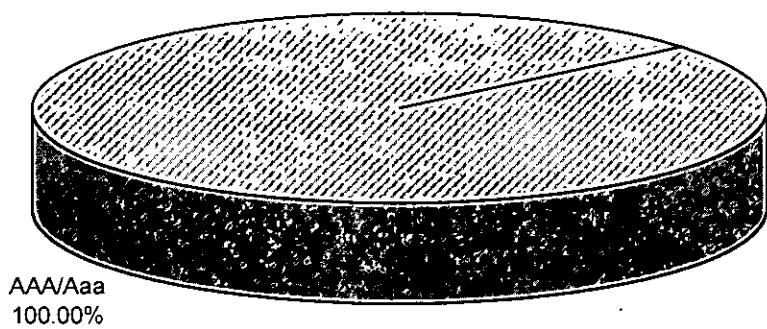
## PORTFOLIO COMPOSITION

The Portfolio continues to comply with all provisions of the City's Investment Policy for Fiscal Year 2012-2013, 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 Successor 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 Successor's holdings by credit rating category are depicted in the chart below. Approximately 100.00% of Operating Fund investments were rated in the AAA/Aaa. On August 6, 2011, the government agencies were downgraded by Standard and Poor's Rating Agency to AA+ from AAA. Moody's Investors' Service and Fitch Ratings continue to maintain AAA for government agencies. The City's Investment Policy for FY 2012-2013 does not have a rating criteria level for government agencies.

**Oakland Successor  
Portfolio Credit Quality  
(As of 6/30/13)**



Liquidity. Liquidity within the Successor's Portfolio remains sufficient to meet only debt service needs of the Successor for the next six months and beyond. The debt service payment for the next six months for the Successor is approximately \$33 million. The estimated cash flow for Successor Portfolio is summarized below:

Successor Portfolio Estimated Cash Flow		
July 2013-December 2013*		
Beg: Available Balance	\$	56,994,688
ROPS Receipt*		-
Debt Service		(32,459,956)
Other expenses		(11,230,044)
Bal: December 31, 2013	\$	13,304,688

\*Successor Pool Only

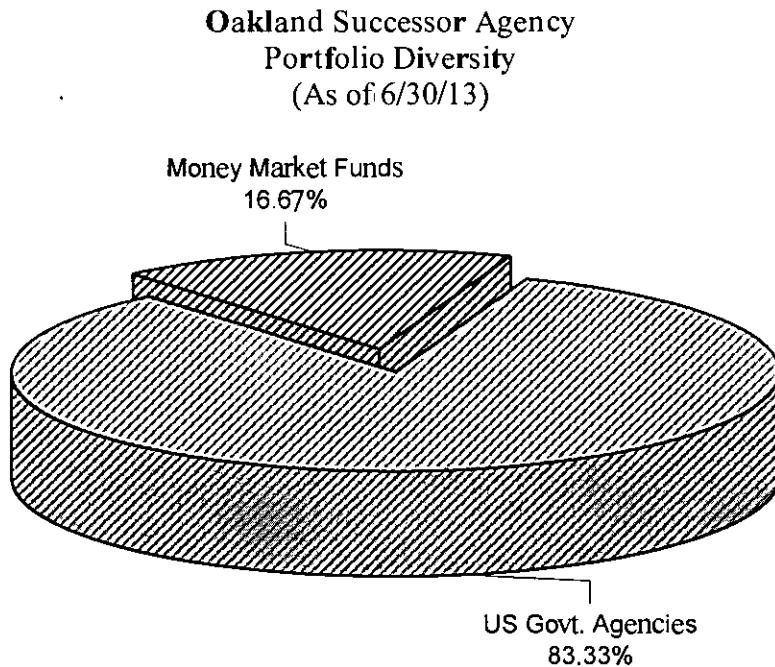
\*\$38.69M receipt in June 2013

**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 2013	\$ 56,994,688	(44.94%)
June 2012	\$ 103,520,284	(47.70%)
June 2011	\$ 197,942,790	(8.69%)
June 2010	\$ 216,792,921	(15.83%)
June 2009	\$ 257,561,000	

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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.



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

Yield. Total interest earned for the quarter ended June 30, 2013, was approximately \$57,815. The effective rate of return on total assets in the Successor's Portfolio was 0.40% for month ending June 30, 2013. The Successor's Portfolio outperformed the 1-year government agency which yielded a rate of 0.19% as of June 30, 2013. The Successor's Portfolio outperformed the Local Agency Investment Fund ("LAIF"), which ended the month at 0.24%. 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.

As of June 30 2013, Successor's Portfolio Fund's average days-to-maturity (ADM) was 73 days versus LAIF's average days-to-maturity (ADM) was 278 days.

Comparative yields for the quarter are shown below.

**Oakland Successor Agency  
Comparative Annualized Yields  
(As of 6/30/13)**

As of Month-end	1-Year Govt. Agency	LAIF <sup>1</sup>	Successor
April 2013	0.15%	0.26%	0.75%
May 2013	0.16%	0.25%	0.74%
June 2013	0.19%	0.24%	0.40%

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

The summary below provides total portfolio income recognized for the last quarter as compared to the prior quarter and the same quarter one year ago.

<b>TOTAL PORTFOLIO INCOME RECOGNIZED</b>					
	<b>Accrual Basis</b>				
	<b>March 31, 2013</b>	<b>March 31, 2013</b>	<b>June 30, 2012</b>		
<b>Total Portfolio</b>					
<b>Quarter-End</b>					
Total Interest Earnings	\$ 57,815	\$ 68,931	\$ 120,583		
Realized gains (losses) from sales					
Total income recognized	\$ 57,815	\$ 68,931	\$ 120,583		
 <b>Fiscal Year-to-Date</b>					
Total Interest Earnings	\$ 291,546	\$ 233,731	\$ 639,812		
Realized gains (losses) from sales					
Total income recognized	\$ 291,546	\$ 233,731	\$ 639,812		

Valuation and Leverage. Based on information received from Interactive Data Corporation, the market value of the Successor portfolio for the quarter ended June 30, 2013 was \$57.11 million, which was above book value by \$112,783. There was no leverage in the portfolio during the reporting period and liquidity was maintained at sufficient levels.

The following table illustrates the net unrealized gains or losses on the portfolio when comparing the portfolio's market value to both its original cost and amortized cost.

UNREALIZED GAINS & LOSSES			
	Cash Basis		Accrual Basis
Market Value	\$ 57,107,472	Market Value	\$ 57,107,472
Original Cost	(56,975,240)	Original Cost	(56,994,688)
Net Unrealized Gain (Loss)	\$ 132,231	Net Unrealized Gain (Loss)	\$ 112,783

### Portfolio Earnings Comparison

