

Local Government
Investment Pool/U.S.
Full Rating Report

City of Oakland Operating Fund

Ratings

Security Class	Current Ratings
City of Oakland Operating Fund	AAA/V1

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Related Research

Applicable Criteria

- [Global Bond Fund Rating Criteria, Feb. 10, 2010](#)
- [Global Bond Fund Rating Criteria \(Short-Term Bond Fund Addendum\), March 22, 2010](#)

Summary

The City of Oakland Operating Fund is rated 'AAA/V1' by Fitch Ratings, reflecting the credit quality of the portfolio assets and their low sensitivity to market risk. The fund is managed by the Treasury Division, Finance and Management Agency of the City of Oakland and Oakland Redevelopment Agency.

The 'AAA' fund credit rating reflects the fund's vulnerability to losses as a result of defaults and is based on the actual and prospective average credit quality of the fund's invested portfolio. As such, the fund is expected to maintain a weighted average portfolio rating of 'AAA', taking into account certain adjustments for the reduced credit risk of short-term securities. The 'V1' fund volatility rating reflects the fund's low market risk and a capacity to return stable principal value to meet anticipated cash flow requirements, even in adverse interest rate environments. Portfolio valuation reports are submitted to Fitch on a monthly basis.

On March 18, 2010, Fitch completed a sector review of all rated local government investment pools (LGIPs) and public investment portfolios, following the publication of updated rating criteria, "Global Bond Fund Rating Criteria," dated Feb. 10, 2010, available on Fitch's Web site at www.fitchratings.com. As part of this review, the fund credit rating assigned to the City of Oakland Operating Fund was affirmed at 'AAA', and the fund volatility rating was revised to 'V1' from 'V1+'. The revision of the fund volatility rating was solely a result of Fitch eliminating the 'V1+' rating from its fund volatility rating scale. The revision of the fund volatility rating scale did not reflect any change in the market or liquidity risk of the portfolio.

Rating Considerations

- Credit quality of the portfolio is consistent with an 'AAA' fund credit rating. The portfolio invests in U.S. government agency securities, certificates of deposit insured by the Federal Deposit Insurance Corporation (FDIC) or overcollateralized by the U.S. government agency securities, and short-term debt securities issued by financial and non financial entities rated at least 'A/F1' by Fitch or of a comparable quality by other global rating agencies. The fund also invests in the local agency investment fund (LAIF). LAIF is a local government investment pool managed by California's pooled money investment board, which is headed by the state treasurer and includes the state's controller and director of finance.
- Overnight liquidity is maintained by investing up to 20% of the fund's assets in registered money market funds rated 'AAAmf' by Fitch or of a comparable quality by other global rating agencies. The amount of liquidity is viewed as sufficient given the predictable nature of the city's cash flows.
- Management oversight and operational controls are consistent with the assigned ratings.

Overview

The city of Oakland is located in Northern California. The City of Oakland Operating Fund is a surplus fund consisting of the unexpended fund balances of the city and the Port of Oakland. As of Aug. 31, 2010, the fund had approximately \$272.3 million in



assets. The fund is organized in accordance with the state of California Government Code Section 53607 and is not registered under federal law. The city's treasurer is authorized by the city council to manage the fund's assets, pursuant to the city of Oakland's investment policy.

The fund's primary objective is the preservation of capital. Per the fund's investment policy, investments shall be made with the aim of avoiding losses due to credit and market risk. The fund's second objective is to maintain an adequate level of liquidity to meet projected cash flow needs through maturing investments. The third objective is maximization of yield as is consistent with the primary goal.

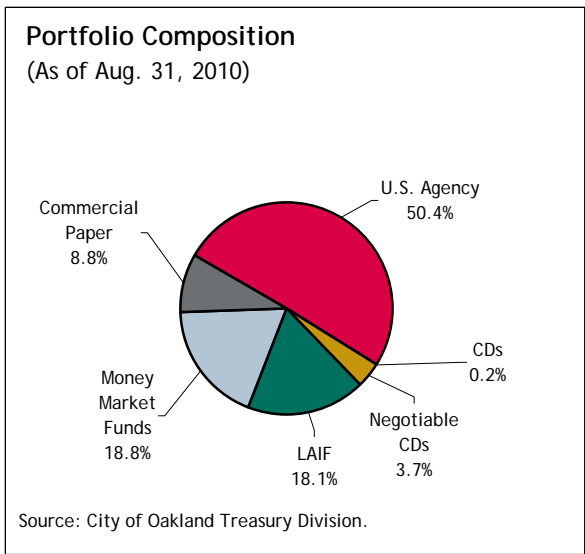
Investment Practices

The fund seeks to pursue its investment objectives by investing mainly in U.S. government agency securities, as well as certificates of deposit insured by the FDIC or overcollateralized by the U.S. government agency securities. Other investments permitted under the fund's investment policy include direct bank obligations, such as certificates of deposit and bankers' acceptances, commercial paper, corporate notes, repurchase agreements, money market mutual funds, and LAIF. Per the fund's investment policy, permitted securities must be rated at least 'A/F1' by Fitch or of a comparable credit quality by other global rating agencies.

By its investment policy, the fund may invest in repurchase agreements with counterparties rated at least 'A+/F1' by Fitch or of a comparable credit quality by other global ratings agencies and overcollateralized by at least 102%. Repurchase agreement collateral is restricted to U.S. government agency securities. As of Aug. 31, 2010, the fund did not have any investments in repurchase agreements.

As of Aug. 31, 2010, the pool invested approximately 50.4% of its total assets in U.S. government agency securities, 18.8% in money market funds, 18.1% in LAIF, 8.8% in commercial paper, and 3.9% in collateralized certificates of deposit.

The fund's investment policy permits investments in government agency callable step-up and floating-rate securities tied to a short-term index. Securities tied to long-term or lagged indexes, such as the cost of funds index or residual-interest securities, are not eligible for portfolio investments. The fund may enter into reverse-repurchase agreements with broker/dealers for purposes of temporary borrowing to meet unanticipated cash outflow. No such agreements have been used during the past year.

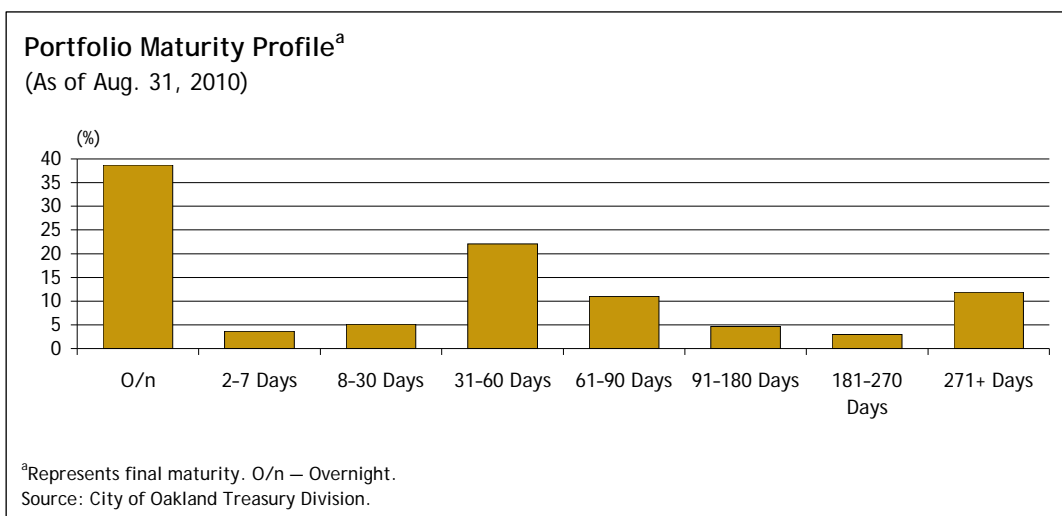


Liquidity Management

The fund's cash flows are forecast by the city of Oakland's treasurer's office each month for the following one-year period. The basis for this forecast is the prior year's cash flows, with additional consideration given to identifiable changes in the forecast period. The historically observed stability of cash outflows is based on the fund's composition, which

has no other participants but the city, port, and redevelopment agency. By the fund’s policy, cash needs to meet cash disbursements and payroll must be covered through maturing investments. Cash flow projections are an integral part of the overall cash management responsibilities of the treasurer’s office.

The fund meets its liquidity needs by investing in maturity-matching eligible securities. In addition, the fund maintains a portion of its net assets in overnight investments, such as money market funds and LAIF, to provide additional sources of liquidity to meet daily cash outflows. As of Aug. 31, 2010, 47.5% of the fund’s portfolio assets matured within 30 days. Finally, the pool maintains a significant position (approximately 50.4% of total assets) in U.S. government agency securities that are expected to demonstrate secondary market liquidity even during periods of market stress.

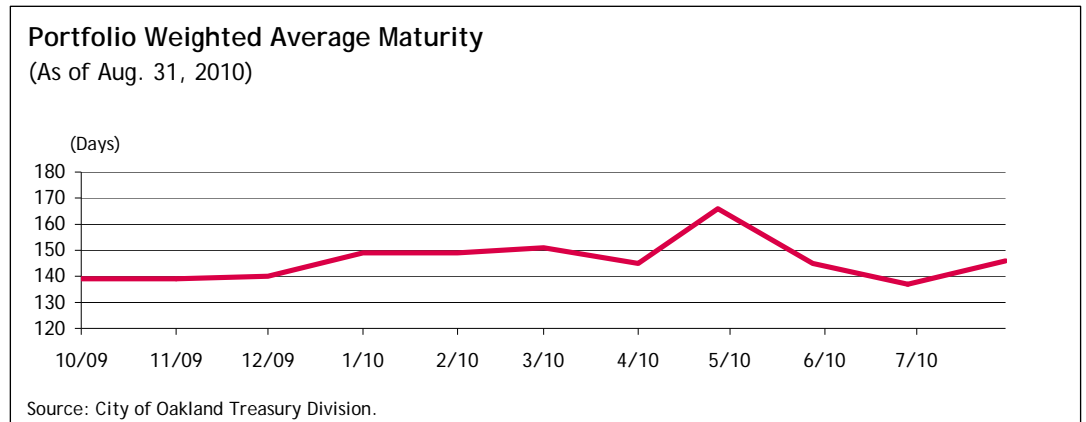


Credit Quality

The fund manages its credit risk exposure by investing mainly in U.S. government agency securities. Other permitted investments must be rated at least ‘A/F1’ by Fitch or of a comparable credit quality by other global rating agencies. The fund’s investment policy mandates maximum exposure to a single corporate issuer not exceeding 5%, with the exception of investments in U.S. government agency securities, money market funds, and LAIF. Repurchase agreements are entered into only with highly rated counterparties and must be fully collateralized by U.S. government securities.

LAIF is a LGIP with assets under management of \$69 billion as of June 30, 2010. LAIF funds are not co-mingled with the state’s cash or in any way available for state use. Fitch does not rate LAIF; however, Fitch views it as being managed in a manner generally consistent with other Fitch-rated local government investment pools operating in the state of California, in terms of asset credit quality, issuer diversification, investor diversification, and liquidity management. To maintain investor diversification, LAIF limits the maximum size of a single depositor’s account to \$50 million, which equates to approximately 18.4% based on the City of Oakland Operating Fund’s Aug. 31, 2010 assets under management. Aside from this limit, any amount of eligible bond proceeds could be invested in LAIF. As of Aug. 31, 2010, the City of Oakland Operating Fund had a total of \$49.3 million in LAIF. Fitch generally views investments in LAIF by other rated entities of less than or equal to 15% as consistent with ‘AAA/V1’ ratings, particularly if such investments serve as the sole or primary source of overnight liquidity. Higher levels of exposure to LAIF may be viewed as

consistent with 'AAA/V1' ratings, provided that such additional investment does not serve as the sole or primary source of the portfolio's overnight liquidity. In this particular case, the LAIF exposure in excess of 15% is not viewed as a being of material concern due to the portfolio's overall overnight position of 38.7%, 20.3% of which is not LAIF-associated.



Weighted Average Rating Factor

Based on the portfolio credit quality and maturity profile as of Aug. 31, 2010, Fitch calculated the weighted average rating factor to be consistent with an 'AAA' fund credit rating. This analysis includes a reduction of the credit factors for securities maturing within 13 months, in recognition of the lower default probability of such securities relative to longer dated securities.

Rating Distribution and Minimum Ratings

In evaluating LGIPs, Fitch also considers the portfolio's minimum asset ratings as well as the extent to which the portfolio may undertake a bar-belled investment strategy. As of Aug. 31, 2010, 99.78% of the portfolio consisted of long-term assets rated 'AAA' and short-term assets rated 'F1' (or equivalent) or higher. The balance consisted of one unrated certificate of deposit secured by U.S. government agency securities and one certificate of deposit with a face amount well under the FDIC-insured limit of \$250,000. The high ratings and absence of a bar-belled investment strategy are viewed as consistent with the 'AAA' fund credit rating assigned to the portfolio.

Diversification

The fund is highly concentrated in U.S. agency securities, which are not viewed as posing concentration risk given the high credit quality and liquidity of such holdings. As of Aug. 31, 2010, the portfolio held 20.3% of its total assets in securities issued by the Federal Home Loan Bank, 10.7% of its total assets in securities issued by Freddie Mac, and 19.5% of its total assets in securities issued by Fannie Mae.

Organization

The City of Oakland Operating Fund is managed by the treasury division of the Finance and Management Agency of the City of Oakland and the Oakland Redevelopment Agency. Authorization for investment decisions is limited to the treasurer and treasury manager. An investment oversight committee composed of representatives of the city council and the public reviews the pool's investment practices and policies on an annual basis. The committee is required to initiate the performance of an annual audit to ensure compliance with established investment policies.

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