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Credit Crisis Impacts Lafayette's Bonds How safe are Lafayette's investments?

By Cathy Tyson

As it turns out, very safe - no pork bellies or wheat futures grace the City's balance sheet. However there has been a significant bump in the road for bond sales to complete the new Library.

When the project was in its infancy, the Lafayette Redevelopment Agency could not have anticipated the current financial meltdown. The plan was to sell $11 million worth of bonds in October 2008 to complete the remaining year of construction on the project.

"When the RDA sells its bonds later this month, Lafayette will likely pay an interest rate that's up to two percent higher than it was just two months ago. As a result, instead of netting $11.3 million from the bond issue, Lafayette might reap just $7 or $8 million," said City Manager Steven Falk in his Friday Summary.

He continues, "Despite the turmoil, the City Council - acting as the Lafayette Redevelopment Agency Board - voted unanimously to proceed anyway and issue the bonds. Agency members noted that putting off the bond issuance could stall the project and, given the unstable markets, perhaps relegate the Agency to even higher interest rates."

There are a couple of options to bridge the $3 to $4 million funding gap. The RDA Board will consider borrowing the money, to be repaid with interest, from the Lafayette Library and Learning Center Foundation or from other city funds.

Aside from bond concerns, a recent report states, "Staff believes that the City's investments in relatively conservative instruments are in line with the City's policy to value safety over yield."

Tracy Robinson, Administrative Services Director, put it another way, "We tend to not invest in anything we can't understand or explain."

The City tends to ladder investments in order to give the City sufficient liquidity while offering a more stable source of income.

However nowadays Robinson notes that the yield curve has remained rather flat so the investments are relatively short-term.

What's the actual break down of the investments? Of Lafayette's $32,916,000., roughly 70% or $22,982,788. is invested in the Local Agency Investment Pool (LAIF). According to their website, this program offers local agencies the opportunity to participate in a major portfolio, which invests hundreds of millions of dollars, using the investment expertise of the Treasurer's Office investment staff at no additional cost to the taxpayer.

"We tend to keep it there because it has a better yield, and it needs to be liquid," said Robinson. "At this point, LAIF is offering higher yields than other investments, although that has not always been the case. The City contracts with PFM (Public Financial Management) to advise them on investment strategy."

The remainder is split between Federal Agency Bonds, FNMA Disc Notes, and two Money Market Pools that do not have exposure to sub-prime mortgages and are being used to fund library construction.

"The City's investments need to be in accordance with the State Government Code, however, the City's policy is actually more restrictive than the Government Code allows. For example, the City requires higher investment ratings on negotiable Certificates of Deposit, Medium Term notes and California Local Agency obligations than the government code permits," said Robinson.

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