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Better Investments Translate to Better Return for City

By Cathy Tyson

The city of Lafayette could be making an additional $70,000 per year in interest on its $20 million in savings, more than double what it's currently making, according to a recent presentation at the Oct. 15 city council meeting.

While $20 million is a whopping balance, the current rates are yielding a paltry 0.25 percent from the Local Agency Investment Fund, or LAIF, a pooled investment fund run by the state of California. Thinking there's room for improvement, several investment firms were interviewed by the Finance Subcommittee; they determined that Wells Fargo "could best meet the needs of the City."

"Wells Fargo has presented an alternative investment portfolio which could boost annual yields to approximately 0.61 percent without significantly increasing the risk or the liquidity of the portfolio," wrote Tracy Robinson, administrative services director, in her staff report. The annual return the portfolio had been making was approximately $50,000; the new and improved portfolio would have a return of over $121,000.

Representatives from Wells Fargo went over their suggestions to revamp the portfolio. Dale Barton, government banking relationship manager, and John Williams of Wells Fargo Institutional Securities proposed leaving $10 million in LAIF calling it a "safe and liquid alternative," despite its low return, and shifting the remaining $10 million to a variety of medium and longer term instruments that provide a much better yield. The definition of medium term is from one and a half to three years, long term is three to five years in banker lingo.

Specifically they recommend moving $1 million to Cal Trust - a pooled investment fund that is administered by the Joint Powers Authority with a yield that is approximately 0.64 percent.

A large chunk, $5 million, would go to existing fixed income certificates of deposit that provide a 0.88 percent return, with the balance going into new CDs and long term corporate notes that allow the city to more fully diversify its portfolio.

Not surprisingly, city council members were pleased about getting a better return and unanimously agreed to direct staff to implement these new investment alternatives that conform to Lafayette's investment policy, in place since 2005. It spells out investment practices based on state law and prudent money management that has as its primary objectives: safety, liquidity and return on investment.

Reach the reporter at: cathy@lamorindaweekly.com

back