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Published November 11th, 2009

City Feels the Impact of the Economic Downturn

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The economic downturn dealt a blow to the City of Orinda's revenues and investments this quarter.

The bankruptcy protection filing by CIT Group Inc. on November 1st left the City holding two bonds with a combined maturity value of \$750,000 that were trading at approximately 2/3 of the original purchase price. At the November 3rd City Council meeting, Bob Thompson, a member of the City's Finance Advisory Committee, advised the City Council to sell the two bonds given the uncertainties and the potential risks and delays associated with the bankruptcy. The City had also consulted with John Armstead of Protected Investors of America who also recommended selling the notes.

The Council voted unanimously to follow this recommendation, and the CIT Group notes were subsequently sold for a loss of about \$252,000. The loss is offset by approximately \$86,000 of earned interest income from the notes over the past two years.

"This is an extraordinarily disappointing moment for us in a city where we work very hard to tightly manage our investments," stated Council Member Steve Glazer. In early August, the Council registered concern about the City's holdings with the then fledgling CIT Group and decided to continue to closely monitor the investments. Glazer added that the City policy has established safety, liquidity, and yield-in that order-as the priorities to be applied in making investment decisions. "While it is difficult for all of us to accept this loss, it's not about gambling. It's meant to be safe," he added

"It is difficult to accept this additional blow to the City's financial situation, but it is prudent," added Mayor Sue Severson. "We can not face greater fiscal uncertainty."

The Council received more bad news with respect to the City's investment income, which is projected to decline by approximately \$50,000 in fiscal year 2010. The impact of the decreased revenue income on the City's operating budget will be addressed at the midyear budget review, according to City Manager Janet Keeter. On the upside, the previously anticipated loss in property tax revenue through a tax grab by the State, worth about \$400,000 to the City, has been eliminated through the securitization of Prop 1A funds.

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