



THE HEART OF CUYAHOGA COUNTY

**6800 Brecksville Road
Independence, Ohio 44131
216.524.4131**

MEMORANDUM

To: Mayor Gregory P. Kurtz
Members of Council

From: Finance Director Vernon Blaze

Date: Friday, April 5, 2024

Re: Finance Office and Related Topic Updates

City's Investment Portfolio

With one fourth of 2024 already in the rear-view mirror, the City's Investment Portfolio continues to achieve results that are consistent with the current interest rate environment.

Through the first quarter of 2024, that Investment Portfolio has accrued just over \$500,000 in investment income (\$528,816).

That amount won't be the same figure that is recorded on the City's books as the amount of "Cash" investment income during that time period, as the interest received from the **Star Ohio** investments is the only interest received on a systematic, end-of-month basis.

The investment income received from the funds on deposit with **Independence Bank** and **Fifth Third** is received at varying times throughout the year based on when various securities in those accounts mature.

The funds on deposit with **Star Ohio** (\$14.5 million) are the most readily available and were accruing an overnight yield of 5.47 percent at the end of

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March.

The funds on deposit with **Fifth Third** (\$10.4 million) are not as readily available as they are invested in various U.S. Treasury securities and Federal Home Loan Bank bonds that vary in maturity over the next few years.

The funds on deposit with **Independence Bank** (\$15.0 million) are invested in various Certificates of Deposit, with one maturing every month between April and October of this year.

The **Fifth Third** and **Independence Bank** portfolios are called “laddered” investment portfolios due to the securities invested in them maturing at varying times in the future. This laddering of securities provides the City with elements of Yield as well as Liquidity, with the **Star Ohio** funds being the most liquid (readily available) as they are laddered out on average of only 46 days.

The City's \$39.9 million Investment Portfolio is a sizeable one for sure.

But the Finance Office always points out when communicating about this portfolio that it does not mean that the City has \$39.9 million that it can do what it wants to. Not even close!

The City has almost \$30 million in encumbrances (Purchase Orders – commitments to expend funds) currently outstanding. It also needs to have material “unencumbered” funds available to maintain its current credit rating (which results in more favorable borrowing costs) and provide that always-needed “just-in-case” financial cushion.

The Finance Office is able to invest this portfolio for varying maturity lengths because fortunately, those \$30 million+- of encumbrances won't be converted to invoices and needed cash payments all at once.

The biggest challenge for the Finance Office now is to gauge if and when the Federal Reserve will start lowering the Fed's Funds Rate, as those rate changes will impact interest-bearing securities of all kinds, including the yields on upcoming City investments and the current **Star Ohio** funds.