



**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, January 5, 2024

Re: Finance Office and Related Topic Updates

**2023 Earned Interest**

Interest rates were “At or near 0%” prior to 2021, started to increase in 2022 and skyrocketed in 2023.

We may have seen the peak of them for some time in 2023, as the Federal Reserve (The Fed) has held off on any further interest rate increases and has signaled its desire to start lowering the Federal Funds Rate sometime in 2024.

The One-Year Treasury Rate has already declined from a peak of 5.49% in early October to 4.80% here in early January.

Longer-term rates have started to fall already too, with the Five-Year Treasury Rate declining from a peak of 4.95% in mid-October to 3.93% here in early January.

Once the Fed actually starts to decrease that Federal Funds Rate, look for these interest rates to decline even more.

## 2023 Earned Interest – Continued

That’s another way of saying that the 2023 interest rate “party” (on the investing side, not so on the borrowing side!) was good while it lasted, but it appears that it has already peaked and 2024 won’t be as lucrative as 2023 was since securities maturing in 2024 will have to be reinvested at ever decreasing interest rates.

“Earned” interest (what various securities held by the City in 2023 *earned* and *accrued* in interest, but was not actually *paid out* since many of the securities held by the City pay the interest when the securities mature, not on a regular monthly or quarterly basis while the securities are held), totaled in excess of \$1.75 million in 2023 as follows:

<u>Account</u>	<u>2023 Earned Interest</u>
Star Ohio	\$ 575,472
Fifth Third	365,878
Independence Bank CD’s	715,560
Independence Bank Money Market	<u>109,316</u>
<b>Total 2023 Earned Interest</b>	<b>\$1,766,226</b>

Again, this won’t necessarily be the “Actual” or “Cash” interest received and reported in 2023 for the reason noted above – many of the securities that mature in 2024 earned and accrued interest in 2023, but that interest won’t be paid out until 2024.

But 2023 was the pinnacle of Earned Interest for many of the recent past years (No recent year dating back to 2020 has even achieved above \$500,000 in Earned Interest), and it appears that it will also be the “zenith” for the next few years at least too - If the Fed holds to its guidance of commencing reductions in the Federal Funds Rate here in 2024.

No matter what happens, the City has taken advantage of the recent past increasing interest rate environment, has various securities laddered/ maturing over the next year primarily, and is invested with three entities that offer a degree of diversification and safety – with safety being the primary tenement when investing public tax dollars:

## 2023 Earned Interest – Continued

- **Star Ohio** – An investment pool for Ohio government subdivisions managed by the State of Ohio Treasurer’s Office. Although it is not backed by the State of Ohio itself, it has maintained Standard & Poor’s highest rating of AAAm (“*Extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit risk*”) since 1995.
- **Fifth Third** – Outside of funds temporarily held in a seven-day money market fund, all of the remaining funds invested through Fifth Third right now are held in US Government Securities – Mostly U.S. Treasury instruments and one Federal Home Loan Bank bond.
- **Independence Bank (IB)** – The City has had a banking relationship with Independence Bank dating back to the early 1980’s at least – so a minimum of more than 40 years now.

Although considered quite small when compared to national and international banks, IB is managed quite conservatively.

In 2023 IB stated that at the end of Q2 2023, it:

- Had a Five-Star Rating (Superior) from Bank by Bauer
- Had a Loan Loss Reserve Ratio of 3.81% compared to an industry average of 1.25%
- Had a Tier 1 Capital Ratio (“*A key measure of a bank’s financial strength*”) of 23.58% (As of 09/30/2023)
  - Comparisons as of December 31, 2022:
    - Huntington Bank – 10.90%
    - JP Morgan Chase – 14.90%
- Had 26% of its Assets in Cash and Cash Equivalents

Earned Interest in 2024 will likely be less than in 2023, but the Independence Finance Office is comfortable with the safety provided by public tax dollars being invested/held by and at these three institutions.