



THE HEART OF CUYAHOGA COUNTY

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MEMORANDUM

To: Mayor Gregory P. Kurtz
Members of Council

From: Finance Director Vernon Blaze

Date: Friday, July 14, 2023

Re: Finance Office and Related Topic Updates

Treasury Management

Treasury Management is another name for “Cash Management” – How an organization manages, invests, and allocates its Cash.

The Independence Finance Office had a somewhat busy week in this aspect of its operations, as it made two significant transactions, one of them with two parts to it.

The first transaction this week was with the Finance Office transferring \$6 million from its money market account at Independence Bank, to Star Ohio.

The money market account is where most of the City’s revenues initially get deposited before being transferred to the checking or other accounts as appropriate. It’s a good account to initially receipt funds into, as those funds are readily available if needed and some interest is earned.

That additional \$6 million in the Star Ohio account may not stay there too long, but while it is parked there, it and the other \$7.9 million that is already with Star Ohio, is currently earning a 5.27% Overnight Yield and a 5.40% Annualized Yield.

Treasury Management – Continued

The second transaction this week was actually two transactions that were the result of some securities in the Fifth Third Account maturing late last month, leaving just over \$5.25 million available to reinvest at current yields.

\$3.1 million of that \$5.25 million was invested in a six-month U.S. Treasury with a Yield-to-Maturity of 5.35 percent. The remaining \$2.15 million was invested in a one-year U.S. Treasury with a Yield-to-Maturity of 5.25 percent.

Since the City has not borrowed any new money since it locked in that 1.595 percent overall rate on the \$15.25 million in 2020, the current higher interest rate environment has financially benefited the City on the investment side of the equation.

Three years ago, when that refinancing transaction was completed, yields on investments of the duration the City generally holds in its investment portfolio, were under 1.0 percent. These current yields in excess of 5.0 percent are resulting in significantly greater interest income on the City's investment portfolio than in past years.

Now of course, those higher interest rates cut both ways. Should the City decide to borrow in this current interest rate environment, it will be paying significantly higher interest rates than it did in 2020 when it locked in that \$15.25 million at just under 1.60 percent. But the City will cross that bridge when it gets to it!

Income Tax Receipts

July's income tax receipts are posted, and although this month's receipts are up slightly from July of 2022, the month of July continues to trade in a narrow range as follows:

<u>July</u>	<u>Income Tax Receipts</u>
2023	\$2,689,107
2022	\$2,427,492
2021	\$2,863,050
2020	\$2,652,852
2019	\$2,693,406
2018	\$2,627,877

Income Tax Receipts - Continued

As always, it's the longer-term trends that the Finance Office is more concerned with and monitors more closely.

On a first seven-months-of-the-year basis, the same "flat" income tax receipts trend is mirrored as follows the last three years:

<u>1st Seven Months</u>	<u>Income Tax Receipts</u>
2023	\$20,780,040
2022	\$20,779,895
2021	\$21,371,104

It's not the worst trend in the world for the City's primary revenue source to be flat for three years running. That's obviously better than a declining trend.

But in a highly inflationary time period such as the one experienced during this time frame, a continued flat revenue trend will eventually leave an organization with less and less "discretionary" funds for other uses and savings unless other revenue sources are developed to offset those dynamics.

Fortunately, the silver lining to counter these flattening income tax/increasing expenses trends, at least here in 2023, is the earlier discussed higher interest rate environment that is allowing the City to earn more in investment income than it has in any year in previous memory.

Local Income Tax Break for Minors

The State Budget Bill, House Bill 33, was signed into law on July 3 by Governor DeWine.

It contained at least eight (8) local municipal income tax provisions in it, including one of them that will exempt the income of all individuals under the age of 18 from municipal income tax in all Ohio municipalities starting in 2024.

Since Independence's local income tax rate is two percent (2%), the savings generally won't be significant for minors, but every little bit helps!