



**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, June 23, 2023

Re: Finance Office and Related Topic Updates

**Investment Portfolio**

The City had two CDs mature this past week – one for \$5 million and another one for \$3 million. Both were earning 4.35 percent.

The Finance Office made the decision to break the \$8 million total into four \$2 million CDs to help both the City and Independence Bank.

Instead of both entities having such a large principal amount maturing on a single day, by breaking down the two CDs into four and laddering the maturities of them, the City can lock in some rates for a longer period of time, and then the bank isn't stuck with the risk of the City "cashing in" all \$8 million of principal on a single day.

That gets to what caused some of the "turmoil" in the banking industry this past spring.

It wasn't so much that the depositor's money the banks had invested was at great risk. It was more that too many depositors wanted to pull their money out at one time. With that money invested by banks in instruments with set

## Investment Portfolio - Continued

maturity dates in the future, there just wasn't enough "Cash-on-Hand" to pay all the depositors who wanted their money all at one time.

By the City laddering that \$8 million instead of having it mature all on one day, Independence Bank is not faced with the risk of having to "write an \$8 million check" to the City with no little-to-no notice.

That \$8 million was laddered as follows:

<u>Principal Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
\$2 Million	01/23/2024	5.15%
\$2 Million	02/21/2024	5.10%
\$2 Million	03/21/2024	5.05%
\$2 Million	04/23/2024	5.00%

Those rates are a little below what similar maturity U.S. Treasury Bills are currently yielding. But as noted in previous Weekly Memorandums, Independence Bank waives numerous fees and other charges for the City over the course of the year, resulting in annual savings in the tens of thousands of dollars. So there's a tradeoff there that's always considered.

These funds join some additional funds at Independence Bank that are all yielding 4.80 percent or more, funds at Star Ohio with a current overnight yield of 5.28 percent, some funds invested in US Treasury instruments and other US government agencies at various yields, and some funds temporarily parked in a money market account at Fifth Third Securities currently yielding 4.90 percent.

One US Treasury in the Fifth Third Account matured yesterday, June 22 and another one matures next Friday, June 30.

That means that upon return to the office after the July 4 Holiday, those funds, and the funds already in the money market account at Fifth Third and are currently earning 4.90 percent, can be reinvested. That current 4.90 percent yield puts the Finance Office in the position of not needing to make a hasty decision.

Trying to maximize yield after first ensuring safety is always a balancing act – part science and part art.

## Investment Portfolio - Continued

Star Ohio's yield right now is the previously stated 5.28 percent. But Star Ohio is mostly invested in short-term instruments.

When interest rates peak and subsequently start to fall, the yield on the Star Ohio account will start to drop quickly too.

The goal is to keep investing in short-term instruments in this market while they are yielding more than long-term instruments are, and then re-balancing the investment portfolio with more longer-term instruments at or near that point before long-term rates start to decline.

Again, it's part science as far as explaining it, but it's also part art to actually implement that strategy and time the market so perfectly.

Happy Summer Solstice this past week everyone!



Hope everyone enjoyed and appreciated the amount of both daylight and sunlight this past week!!