



THE HEART OF CUYAHOGA COUNTY

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Independence, Ohio 44131
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MEMORANDUM

To: Mayor Gregory P. Kurtz
Members of Council

From: Finance Director Vernon Blaze

Date: Friday, March 17, 2023

Re: Finance Office and Related Topic Updates

Income Tax Receipts

Just as February’s Income Tax Receipts were the second highest in the last eight (8) years, March’s were the lowest in the last eight (8) years as follows:

<u>March</u>	<u>Income Tax Receipts</u>
2023	\$2,040,535
2022	\$2,283,084
2021	\$2,624,634
2020	\$2,636,888
2019	\$2,359,345
2018	\$2,194,939
2017	\$2,098,553
2016	\$3,108,258

That has caused First Quarter Income Tax Receipts to be the lowest since 2017 as follows:

Income Tax Receipts - Continued

<u>First Quarter</u>	<u>Income Tax Receipts</u>
2023	\$7,950,710
2022	\$8,047,634
2021	\$8,611,573
2020	\$8,545,370
2019	\$7,987,634
2018	\$8,005,856

Banking Industry Turmoil

Silicon Valley Bank (SVB) failing so quickly last week and the FDIC moving in to take it over sent shock waves through the financial industry. It caused many businesses, governments, and other organizations to evaluate their current banking relationships.

The City of Independence essentially has its money with three primary institutions:

- Independence Bank
- Star Ohio
- Fifth Third

Most of the City's money with Independence Bank is invested in six-month Certificates of Deposit (CD's). These CDs are collateralized by securities held by and administered by Truist Bank out of Atlanta.

Truist was formed in 2019 as a result of the merger between BB & T and Sun Trust, ranking it in the top ten largest banks in the U.S.

In a conversation with Independence Bank earlier this week on Monday, the City Administration "checked in" to get a better feel for how last week's banking turmoil had and was impacting it.

Independence Bank President Mike Malcuit stated that there was no "run" by customers to withdraw funds, and later this week the Bank confirmed that it was actually the recipient of a number of new accounts that were opened this week by depositors seeking diversification.

When asked about the Bank's Tier 1 Leverage Ratio, which ideally would be greater than 8%, Mike indicated that the Bank's Year-End 2022 Tier 1 Leverage Ratio was 14.35% and was currently slightly higher than that. (The latest Tier 1 Leverage Ratio that could be confirmed online was for the end of the Second Quarter of 2022, when it was 14.53%).

When asked about the Bank's Loan-to-Deposit Ratio, which ideally should be less than 90% for a measure of safety, Mike indicated that it was currently at 71%.

Finally, a bank's Texas Ratio is another metric to assess a bank's financial condition. It looks at a bank's non-performing assets, and *"any bank with a Texas Ratio near or greater than 100% is considered at risk."*

Independence Bank's Texas Ratio? All of 4.59%!

While any business relationship might not ever be 100% guaranteed, the Finance and Mayor's Offices are comfortable with Independence Bank's conservative management and stewardship that has existed for over 40 years now and the Bank-City relationship that has existed for just as long.

Star Ohio is an investment pool administered by the Ohio Treasurer's Office that "allows government subdivisions to invest in high-grade, short-term securities while offering safety, penalty-free liquidity" and market rate yields. Therefore, since Star Ohio administers an investment pool and is not a bank, the recent turmoil surrounding the banking industry doesn't apply to Star Ohio.

The last entity that the City has funds with is Fifth Third Securities (Bank). Most of the funds on deposit with the securities division of Fifth Third are currently invested in U.S. Treasury Bills, with a few municipal bonds (Notes, actually) too that will soon be maturing.

Therefore, the City typically only has more than \$250,000 on deposit in a Fifth Third money market account (The FDIC account limit) when an investment security matures and hasn't been re-invested yet.

The order of importance of investment goals for the Finance Office managing the public's tax dollars is always, Safety first, Liquidity second and Yield third.

Implications of Remote Work for Ohio's Municipal Income Tax

In February, the Ohio Municipal League (OML) came out with a 47-page report on this topic.

The abstract of it states in part that "*The report examines...the potential for permanent increases in remote work prevalence and published simulations of potential revenue impacts due to increased remote work...*"

A copy of it will be available here in the Independence Finance Office for anyone wishing to borrow it and read it, as it doesn't appear to be on the OML website yet.