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, May 17, 2024

Re: Finance Office and Related Topic Updates

Income Tax Receipts

May's Income Tax Receipts are in and after a solid first third of the year, May has moderated some here, with this month's Income Tax Receipts being down almost $1.0 million from May of 2023. (May of 2023 could have been the City's all-time largest single month of income tax collections ever).

One month is not a trend, so quantifiable conclusions cannot be drawn from just this month alone. But Income Tax Receipts this month are lower than they were in May of 2018 - six years ago. Dating back to 2018, following are the May Income Tax Receipts:

May	Income Tax Receipts
2024	$3,552,312
2023	$4,534,745
2022	$3,411,129
2021	$3,643,880
2020	$2,274,426 (August Tax Due Date)
2019	$3,511,239
2018	$3,727,196

U.S. Treasury Instruments

With speculation in the market being all over the board regarding when the Federal Reserve is going to commence the lowering of the Federal Funds Rate, some investors may be looking to lock in some solid, safe returns that are also generally state and local income tax-free.

(Independence currently has almost $8.5 million of City funds invested in U.S. Treasuries of various maturities from 2024 – 2029).

Following is an introductory summary of three Treasury instruments – Bills, Notes and Bonds.

U.S. Treasury Bills

- Various maturities from four to 52 weeks
  - 4, 8, 13, 17, 26 and 52 weeks
- Sold at Face Value or at a discount from Face Value
- Always pay Face Value at maturity
- 52 week Bills are sold every four weeks
  - 4, 8, 13, 17 and 26 week Bills are sold every week

U.S. Treasury Notes

- Maturities of 2, 3, 5, 7 and 10 years
- Pay interest every 6 months
- Interest rate is fixed, but is never less than 0.125%
- 2, 3, 5 and 7 year Notes are sold monthly
- The 10 year Notes are sold in February, May, August and November

U.S. Treasury Bonds

- 20 or 30 year maturities
- Pay interest every 6 months
- Interest rate is fixed, but is never less than 0.125%
- Sold 4 times a year

The next page lists yields as of late this week on the various Bills, Notes and Bonds.

U.S. Treasury Bills	Recent Yield
4 Week	5.37%
8 Week	5.39%
13 Week	5.39%
17 Week	5.44%
26 Week	5.37%
52 Week	5.13%

U.S. Treasury Notes	Recent Yield
2 Year	4.80%
3 Year	4.59%
5 Year	4.42%
7 Year	4.41%
10 Year	4.41%

U.S. Treasury Bonds	Recent Yield
20 Year	4.66%
30 Year	4.55%

Notice that the yields on all of the shorter-term Bills are higher than the yields on the mid-term Notes and the longer-term Bonds. Even the two-year Note yield is lower than the ten-year Note yield.

Historically, shorter-term interest rates have been lower than longer-term interest rates.

When that dynamic is reversed, where short-term interest rates are higher than longer-term interest rates, as they are now, it's called an "Inverted Yield Curve."

Historically an Inverted Yield Curve has signaled an oncoming recession.

However, the Yield Curve has been inverted here since mid-2022 – almost two years now. Although numerous national companies have recently announced layoffs and cutbacks, the country still isn't in a technical recession yet, so economists and other market followers are starting to question whether an Inverted Yield Curve dynamic is still a valid leading indicator of an upcoming economic slowdown.