



# City of Independence, Ohio

"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, February 19, 2021

Re: Finance Department Updates

### **Interest Rates – Part I**

Regular readers of this weekly Memorandum know that the Finance Office advocates for not getting overly excited over short-term positive news or overly concerned about short-term negative news. The mid and longer-term trends paint a more thorough picture of what's happening economically or financially.

So with that axiom in mind, the following is neither positive, negative or a trend at this point – it's just some news that is quietly starting to be reported in various publications.

The “prevailing wisdom” in 2020 was that interest rates were slated to stay low indefinitely due to the Federal Reserve’s stated policy of “holding the line” on interest rate increases until economic conditions warranted a change in that policy.

So while the following dynamic hasn't filtered down to the tax-free municipal market just yet, it's quite interesting that selected interest rates have started to rise already, just two months here into 2021 (And “faster than unexpected” according to one quote below. But recall the 2020 discussion we had regarding economists oftentimes not accurately predicting likely outcomes).

Since Fifth Third Securities has a portfolio of investment securities for the City, we are periodically in receipt of a written “Quick Thoughts Commentary” from Fifth Third. One that came out this week stated in part:

*“...the equity market began to reflect on the potential of **sharply higher interest rates** on the economy.”*

Yahoo Finance published an article in January that was titled **Rising Interest Rates Could Become a Big Problem for Investors**. Some quotes from it include:

*“Over the past few weeks, **interest rates have begun to increase faster than expected.**”*



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## Interest Rates Part I Continued

*"For both the U.S. government and corporate borrowers, **the cost of borrowing money is rising.**"*

It will be many years before it can be calculated and determined if the City made the perfect decision to bond out its short-term notes into a 15-year bond in 2020. But it does appear that at the very least, the City's timing in locking in its debt at an overall interest rate just under 1.60% was excellent, as here just a few short months after that bond issue closed, a trickle of news is starting to come out regarding an "unexpected" rising interest rate environment.

## Interest Rates Part II

As much as those record low interest rates in 2020 benefited the City on the borrowing side, they really hammered the interest earned by the City on the investment side in 2020.

Most of the City's investment portfolio is with locally owned and operated Independence Bank. The interest rates on the Certificates of Deposit (CD's) with Independence Bank that were expiring in the first half of 2020 were in the 1.80% to 1.90% range. By the second half of 2020, those CD's were being renewed at interest rates in the 0.55% to 0.60% range – a full two-thirds lower.

The State of Ohio has an investment pool for Ohio governmental entities called Star Ohio. Star Ohio provides Ohio governmental entities with a low-cost, convenient way to invest funds and also to have quick and easy access to those funds if needed.

At the end of January, 2020, the interest rate received on funds on deposit with Star Ohio was 1.77%. By the last business day of 2020, funds on deposit with Star Ohio were yielding all of 0.12%, a startling 93% decline from earlier in the year.

At the end of 2020, the City's investment portfolio was allocated as follows:

Independence Bank	\$18,000,000
Fifth Third Securities	6,670,364
Star Ohio	<u>7,632,573</u>
Total Investment Portfolio	\$32,302,937

Low interest rates – great for borrowers, but not so enriching for savers and investors!