



# 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, January 28, 2022

Re: Finance Office Updates

### **Interest Rates – Rising**

In late 2020, the City made the policy decision to lessen its interest rate risk. Instead of having a significant portion of its total debt in short-term, one-year notes, it opted to convert that short-term debt, which was subject to a new interest rate every twelve months – like an adjustable rate mortgage – into long-term debt.

The City “bonded out” those short-term notes and locked in a True Interest Cost (TIC) (Rate) of just under 1.6% for 15 years. It was felt by the majority of Council that locking in an interest rate at that level for 15 years was the safer route than being subjected to a new interest rate every 12 months for many years.

Interest rates and the Federal Reserve have been in the news quite a bit lately due to the Fed communicating that it is preparing to raise short-term interest rates, reducing/eliminating asset purchases and reducing its portfolio of Treasury and mortgage securities. All of these actions have and will continue to influence both the equity (stocks) and debt (mortgages, government and private-sector bonds/notes) markets.

Following are some quotes from a January 26, 2022 *Wall Street Journal* article titled “U.S. Government Bond Yields Rise After Fed Announcement”:

- *“The two-year yield, which often moves with investors’ expectations for central bank policy, settled...at its highest closing level since February 2020.”*
- *“Analysts and investors...noted [Fed Chairperson Powell] didn’t rule out raising rates at consecutive Fed policy meetings – or by a larger-than-normal amount at a single meeting – and suggested that the pace of coming increases may differ from the last cycle.”*
- *“Expectations for rising short-term interest rates sparked an early-year bond rout that drove their yields to their highest levels in recent weeks since the start of the pandemic.”*



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- *“Mr. Powell’s comments suggested that the Fed is willing to raise rates faster than investors may have expected before Wednesday’s statement to deal with inflation, as opposed to worrying about the possible consequences of rapid rate increases.”*

Independence’s total debt service payments in 2022 total just under \$2.2 million. 2022 revenue is preliminarily estimated at approximately \$42.4 million. In percentage terms, the City’s 2022 debt service requirements equal 5.2 percent of its estimated 2022 revenue. That level allows a lot of local Independence municipal officials to sleep well at night – no matter what happens to short and long-term interest rates going forward.

Those rising interest rates will be a concern if either the School District and/or the City chooses to go before the voters in the next few years for large-scale projects that would require multi-million dollar bond issues.

But until that is determined, Independence is very well positioned to weather the coming rise and volatility in interest rates.

## **2022 Budget/Capital Improvement Plan**

Council will discuss the proposed 2022 Annual Appropriations Ordinance at the Monday, January 31 Finance Committee Meeting.

Once that process is complete and Council is set to vote on it, attention and focus will turn to the 2022 – 2026 Capital Improvement Plan (CIP).

Mayor Kurtz and Council, with the assistance of the Finance Department, will be tasked with allocating funds for capital purchases and infrastructure projects, just as an annual appropriations ordinance is an “allocation” document – how financial resources are going to be allocated.

Allocating funds is a very, very important function. It’s so important that when asked what his main, most important role is at Berkshire Hathaway, CEO Warren Buffet once replied *“I allocate capital.”*

Let’s keep in mind the critical role a mayor, a council and a finance director play in allocating capital at the local level - not only as we go forward over the next few months, but at all times.