

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, July 1, 2022

Re: Finance Office and Related Topic Updates

Investment Portfolio Update

This weekly Memorandum recently presented on the topic of the City's Investment Portfolio, and how the City historically has had a fairly high percentage of its entire Investment Portfolio invested in certificates of deposit at Independence Bank.

To rebalance that Investment Portfolio some, when a recent \$2.0 million certificate of deposit matured at Independence Bank, it was not renewed, and the proceeds were transferred over to the City's investment account with Fifth Third Securities.

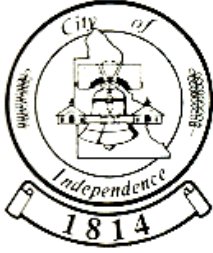
This past week, \$1.0 million of that \$2.0 million was invested in a six-month U. S. Treasury Bill that will mature on December 31, 2022 at a yield of 2.46%. The other \$1.0 million was invested in a one-year U.S. Treasury Bill that will mature on June 30, 2023 at a yield of 2.84%.

The yields on short-term U.S. Treasuries have increased faster than the yields on one-year municipal notes (BANS), so investing in short-term U.S. Treasuries over municipal notes is the current preferred investment option.

But markets change and fluctuate daily, so the current dynamic of short-term U.S. Treasuries yielding more than one-year municipal notes can change quite quickly.

The Number One (#1) priority of the investment of public funds is "Safety." "Yield" is important, but is still secondary to the preservation of the public's tax dollars.

With short-term U.S. Treasuries considered as safe of an investment as there is, they are currently providing a very acceptable and safe landing pad for at least part of the City's Investment Portfolio.



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Municipal Income Tax Receipts - Advance

The Finance Office often states that it doesn't get overly excited about monthly income tax receipt levels – it's longer periods of time and trends that it is more concerned with.

Regular readers of this weekly Memorandum know that income tax receipts are essentially received in two tranches each month – the "Advance" around the first of the month and the "Remainder" around the 15th of the month.

July's Advance has been received, and it is quite a bit lower than July of 2021 and 2020 as follows:

<u>July</u>	<u>Advance</u>
2022	\$2,064,432
2021	\$2,699,873
2020	\$2,387,311

More important will be what July's "Remainder" is as well as how the month of July compares with recent previous Julys and aggregate year-to-date figures.

Independence is very reliant on income taxes for the vast majority of its annual revenue stream. A number of factors play into income tax receipt levels, but the level of employment within Independence is the largest factor in this equation.

Policy decisions being made at the federal level may help to curb current raging inflation, but it may come at the cost of employment, which would be detrimental to Independence's primary revenue source. An economic newsletter dated this week stated: *Fed Chair Powell noted that he was more concerned about the risk of failing to stamp out inflation than he was about raising rates too high and pushing the economy into recession.*

It also went on to state: *Many of the nation's largest employers and last year's newsworthy companies have begun to announce corporate layoffs, including Tesla, JP Morgan, Netflix, Carvana, Peloton, Coinbase and Robinhood.* The first employment dominoes might be falling.

Finally, it stated: *The Fed wants to lower consumer spending to weaken demand and **it also wants to increase the unemployment rate** to ease wage inflation.*

The Fed's desire to increase the unemployment rate would only be adverse to Independence's primary revenue source – income tax receipts.