



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 23, 2021

Re: Finance Department Updates

American Rescue Plan Act (ARPA) of 2021 Update

As an update to last week's Memo, the Finance Department confirms receipt of the \$375,794.43 of 2021 ARPA funds, which was direct deposited into one of the City's accounts at Independence Bank on Wednesday, July 21.

Five-Year Capital Improvement Plan (CIP) Update

Materials are in the process of being prepared and will be ready to disseminate to Directors early next week. The goal is for Directors and Mayor Kurtz to utilize the next four weeks or so to review all potential capital purchases and infrastructure projects for the years 2022 – 2026 that they would like to propose to Council.

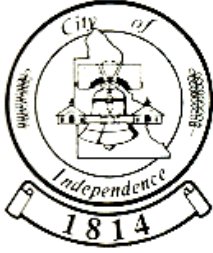
The years 2022 – 2025 are already accounted for, so they may just have to make some tweaks to those years as circumstances, situations and re-calculated priorities require. Then proposed capital purchases and infrastructure projects for 2026 will have to be added to the Plan.

If this process can be completed before the end of August, the Finance Department should be able to compile and formulate a draft 2022 – 2026 CIP for Council's review and discussion with Mayor Kurtz sometime in late September or early October.

Upcoming Bond Debt Eligible for Pre-Payment Without Penalties

Last week's Memo also presented this issue as well. Following are a few more details on it to assist Council with making an informed and reasoned decision within the next few months.

After December, 2021's scheduled principal payment is made, the following tranches of debt will be eligible to be paid off without any pre-payment penalties:



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Upcoming Bond Debt Eligible for Pre-Payment Without Penalties Continued

(2022)	\$ 515,000 @ 3.000%	= \$ 15,450.00	Interest in 2022
(2023)	\$ 465,000 @ 3.250%	= \$ 15,112.50	Interest in 2022
(2024)	\$ 485,000 @ 3.500%	= \$ 16,975.00	Interest in 2022
(2025)	\$ 505,000 @ 3.500%	= \$ 17,675.00	Interest in 2022
(2026)	\$ 520,000 @ 3.625%	= \$ 18,850.00	Interest in 2022
(2027)	\$ 535,000 @ 3.750%	= \$ 20,062.50	Interest in 2022
(2028)	\$ 555,000 @ 4.000%	= \$ 22,200.00	Interest in 2022
	<u>\$3,580,000</u>		<u>\$126,325.00</u> Interest in 2022

The City likely wouldn't utilize any of its CD's at Independence Bank paying 0.60% to pay some, part or all of that \$3,580,000 in December of 2021 if desired, as it still has some \$7.6 million on deposit with Star Ohio earning 0.08% in interest.

So the decision is a little more involved than this due to multiple years and present value considerations, but the essence of this decision can be boiled down to *"Does the city want to keep paying between 3.0% and 4.0% in interest for the next seven years while it earns a current interest rate of 0.08% on funds on deposit with Star Ohio?"*

\$3,580,000 earning 0.08% will yield the City all of \$2,864 in interest over the course of a single year if current interest rates remain in place during that time period. So even without the present value calculation, saving \$126,325 in interest during 2022 by paying this debt off vs. retaining \$3.58 million cash earning just under \$3,000 in interest a year qualifies as a very good option to consider for the utilization of the City's cash.

Carrying out the calculation over the full seven-year remaining life of this debt results in the following:

Interest to be paid out on this debt over the next seven years	\$537,325
Interest that would be earned on \$3.58 million at 0.10% over seven years	<u>25,060</u>
Potential gross savings by paying this debt off in December, 2021*	\$512,265

*Assuming that interest rates on investments would stay at existing levels for the next seven years. That is not likely to happen, but at less than 0.10% currently for funds on deposit at Star Ohio, interest rates would have to increase substantially to get anywhere close to the 3.0% – 4.0% coupon interest rates this current debt will cost the City over the next seven years.