



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: September 11, 2020

Re: Finance Department Updates

Investment Portfolio Summary – August 31, 2020

The downward trend in investment interest rates that has been in existence since the latter part of 2019 continues to cause monthly Dividend and Interest income to decrease significantly. On a stable investment portfolio of just over \$32 million, following are a few selected statistics from 2020's Investment Portfolio:

1. Total monthly Dividends and Interest received here in 2020
2. The end-of-the-month interest rate on the City's approximately \$7.6 million with Star Ohio
3. The End-of-Month (EOM) Value of the Investment Portfolio

<u>Month</u>	<u>Total Dividends/Interest</u>	<u>Star Ohio Interest Rate</u>	<u>EOM Value</u>
January	\$52,357	1.77%	\$32,222,578
February	\$55,031	1.75%	\$32,249,003
March	\$44,459	1.01%	\$32,265,000
April	\$40,929	0.84%	\$32,277,401
May	\$28,797	0.65%	\$32,283,996
June	\$34,392	0.55%	\$32,295,405
July	\$16,324	0.36%	\$32,298,726
August	\$22,978	0.25%	\$32,308,991

The above portfolio includes one more small (\$170,000) marketable Certificate of Deposit (CD) with Fifth Third that is yielding 2.10%. But as with the other marketable CD's that were in the portfolio as of January 1 of this year, they all have "Call" provisions in them.

These Call provisions allow the issuer of a marketable CD to "Call" it (redeem it by paying off the principal balance) at their discretion. All of the marketable CD's in the City's investment portfolio with Fifth Third except the one remaining one were redeemed over the course of 2020



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Investment Portfolio Summary – August 31, 2020 – Continued

since they were all yielding interest rates that were higher than current interest rates.

So as the Call Dates of those CD's occurred, the issuers were able to "Call" (redeem) the higher yielding CD's by issuing new CD's to different investors at a lower interest rate. Some of the CD's that were redeemed during 2020 were yielding up to 3.25%.

It makes sense from an issuer's standpoint to "Call" (redeem) a CD that the issuer had to pay a 3.25% interest rate on, and replace it with one that is currently yielding say 0.25% (using Star Ohio's current rate as a benchmark).

The City is fortunate to have the good banking relationship that it does with Independence Bank. On the current \$18 million portfolio of CD's with Independence Bank, the interest rates on them range from a high of 1.10% (due September 24, 2020) to a low of 0.60% (due February 2, 2021).

The CD's with Independence Bank are not "marketable" CD's. These CD's are issued directly by Independence Bank and are fixed-term CD's that are not subject to being called/redeemed if interest rates decline.

Cash Balance – August 31, 2020

Some municipal finance observers focus on Cash Balance as one of the metrics they follow ("*Just tell me how much cash there is at the end of a given period*").

The End-of-Month Cash Balances, Encumbrances (Purchase Orders – which are commitments to spend funds) and Unencumbered Cash Balances for 2020 are as follows:

<u>Month Ending</u>	<u>Total Cash</u>	<u>Less Encumbrances (PO's)</u>	<u>Equals Unencumbered Cash</u>
January	\$38,856,072	\$26,542,752	\$12,313,320
February	\$39,556,332	\$26,475,708	\$13,080,624
March	\$39,764,855	\$24,918,176	\$14,846,679
April	\$39,655,689	\$24,218,612	\$15,437,077
May	\$39,367,666	\$22,852,911	\$16,514,755
June	\$38,226,773	\$20,630,031	\$17,596,742
July	\$34,758,712	\$18,714,966	\$16,043,747
August	\$37,350,446	\$20,749,895	\$16,600,551