



# CITY OF GRAND RAPIDS AGENDA ACTION REQUEST

**DATE:** August 27, 2024

**TO:** Mark Washington, City Manager

**COMMITTEE:** Fiscal Committee  
**LIAISON:** Molly Clarin, Chief Financial Officer

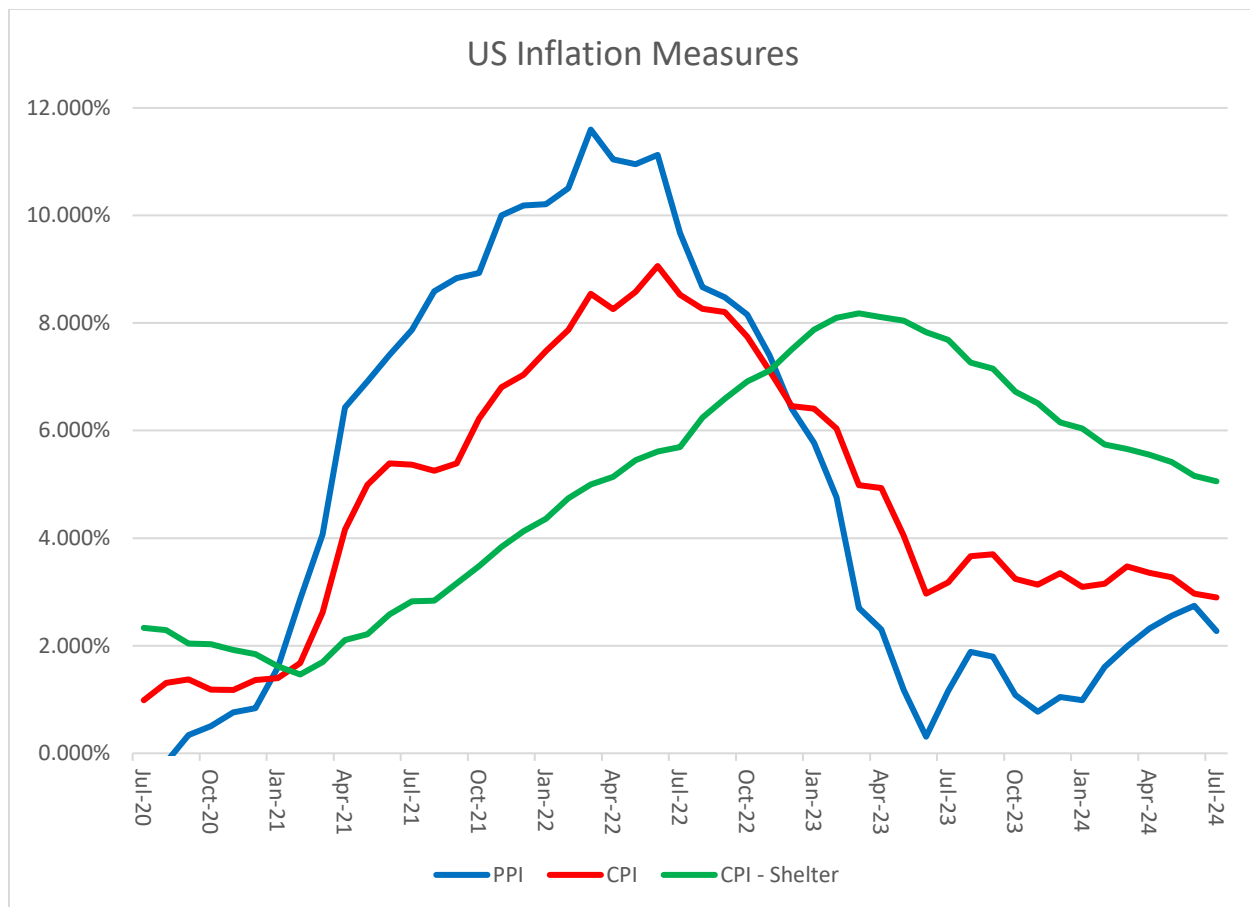
**FROM:** Levi Boldt, Investment Officer

**SUBJECT:** Treasurer's Report for Period of August 1, 2024 through August 13, 2024

The Bureau of Labor Statistics released two important inflation gauges for July, the Producer Price Index (PPI) and the Consumer Price Index (CPI). PPI rose 0.1% from June and 2.2% from the previous July. CPI rose 0.2% month-over-month and 2.9% year-on-year in July.

These two reports are somewhat cooler than expected. Producer prices, which are heavily weighted toward raw materials and industrial components, appear to have returned to target levels. Consumer prices remain somewhat elevated. Goods inflation is generally back within target levels. Housing remains the standout services sector that remains elevated. However, it continued its disinflationary trend in July.

Note that the two major components of CPI-Shelter are rents and owners' equivalent rent. Since surveyed rents are randomized, they measure all existing leases as well as off-lease rents, rather than only new leases. This means that housing costs typically lag broader price indices by several months. The fact that, while elevated, it continues to decline suggests that new leases are priced substantially lower than those entered into 11 months ago.



Source: Bloomberg, Federal Reserve Bank of St Louis

The disinflation has prompted the market to begin pricing in expectations of rate cuts at FOMC's next meeting in September. At present, markets have priced in a 63.0% likelihood that FOMC will reduce short-term interest rates at its September 17-18 meeting by 0.25%. They have also priced a 37.0% likelihood that the rate cut will be 0.50%. In other words, market are convinced that the question before the FOMC in September will not be whether to cut rates, but how much it will do so. Markets indicate terminal short-term interest rates will be 4.00% – 4.25% by early 2025

As interest rates fall, the market price of outstanding fixed-yield bonds and other debt obligations rises. The opposite also holds true; market prices drop when interest rates increase. The magnitude of the market price change is roughly proportional to time to maturity. Gains or losses in market value are only realized when portfolio securities are sold prior to maturity. Unrealized gains or losses have no impact on portfolio cash flow or interest earnings.

Governmental accounting standards require the Treasurer's Office to mark the portfolio to current market prices on the City's financial statements. It is important to understand

that unrealized gains and losses exist “on paper” only. Sufficient liquidity is available to fund expected current expenditures without selling portfolio holdings prior to maturity.

The Treasurer’s Office manages the City’s investment portfolio with the goals of safety of principal, sufficient liquidity to meet expected liabilities, and obtaining a competitive yield on invested monies. By selecting portfolio holdings with positive cash flows during periods of expected drawdown, the Treasurer’s Office maximizes invested capital while minimizing the likelihood that of a liquidity demand in excess of readily available resources, which could result in a loss of principal. This also allows some flexibility to take advantage of market themes and opportunities as they present themselves. Communication among City staff, especially as to the timing of major expenditures, is critical to the success of this approach.

The FY2025 fiscal plan calls for the drawdown of fund balances and/or retained earnings to pay for a portion of large capital projects. Analysis of expected cash flows has prompted the Treasurer’s Office to purchase bonds maturing in late 2025 and early 2026 to ensure sufficient liquidity will be available when needed. Market analysis

Portfolio segments and investment returns are listed in the following table.

| Portfolio Segment       | Market Value                | Purchase Yield |
|-------------------------|-----------------------------|----------------|
| Pooled Funds            | \$686,733,513               | 3.51%          |
| Cemetery Perpetual Care | \$5,194,471                 | 4.46%          |
| Bond Proceeds:          |                             |                |
| CIB 2023 – Lyon Square  | \$4,694,904                 | 5.48%          |
| CIB 2024 – Amphitheater | \$20,592,455                | 3.33%          |
| CIB 2024 – Scribner     | <u>\$44,753,399</u>         | 5.29%          |
| <b>Total:</b>           | <u><u>\$761,968,742</u></u> | 3.62%          |

The attached appendices detail portfolio holdings and recent trading activity. Please contact me at ext. 3285 with any questions on this report. Thank you.

cc: Roberta Cahill, Deputy City Treasurer  
John Globensky, City Treasurer