



CITY OF GRAND RAPIDS AGENDA ACTION REQUEST

DATE: July 30, 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 July 1, 2024 through July 16, 2024

Summer property tax collections began on July 1. The summer property tax roll is approximately \$303 million. Per the City Charter, these taxes are due by July 31. This is a significant driver of cash flows and investment activity. Approximately \$58 million of the tax roll is ultimately due to the City for its own operations. The remainder is collected on behalf of other taxing authorities such as Kent County and the various public school districts within the city's boundaries. That means we will collect around \$245 million which will be distributed to other governmental entities.

Michigan's General Tax Act requires that, in the absence of formal, written agreements between the City and those other taxing authorities specifying otherwise, any interest earned on those monies earned while in the City's custody must be distributed as well.

In an effort to minimize credit risk, the Treasurer's Office purchases US Treasury securities with these fiduciary property tax monies. US Treasury securities are guaranteed by the full faith and credit of the United States, and are therefore considered the safest, most secure, and most liquid of all possible investment options on the planet. Interest earned is passed along to the authorities to whom the principal belongs.

Markets have priced in a 95.3% likelihood that FOMC will maintain short-term interest rates at their current range of 5.25% – 5.50% at its next meeting July 30-31. Market pricing also indicates a 96.2% likelihood that FOMC will reduce rates 0.25% at its September 17-18 meeting.

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. This has resulted in investment purchases of mostly short-term assets. Due to an inverted yield curve (when short-term interest rates are higher than long-term rates), these purchases have temporarily boosted portfolio yield. However, we are mindful of the need to sustain yields even as overall rates decline. Our focus on short-term investments comes at the expense of sustained yields over longer periods of time.

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

Portfolio Segment	Market Value	Purchase Yield
Pooled Funds	\$596,175,769	3.37%
Cemetery Perpetual Care	\$5,178,918	4.46%
Bond Proceeds:		
CIB 2023 – Lyon Square	\$4,646,728	5.48%
CIB 2024 – Amphitheater	\$20,413,689	5.33%
CIB 2024 – Scribner	\$59,762,108	5.28%
Total:	<u>\$686,177,212</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