



CITY OF GRAND RAPIDS AGENDA ACTION REQUEST

DATE: January 14, 2025

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 November 21, 2024 through December 26, 2024

At its December 17-18 meeting, the Federal Open Market Committee (FOMC) cut short-term interest rates by 0.25%, to 4.25% – 4.50%.

Inflation measures remain stubbornly above FOMC's target of 2.0% year-over-year growth in the Personal Consumption Expenditures index. While long-term inflation expectations appear to be anchored, PCE projections in the Fed's Summary of Economic Projections released in December increased slightly from September's estimate. The most significant contributing factor continues to be related to housing expenses – rent and owner's equivalent rent. While inflation of housing services is trending down, there is a lag effect in reported housing cost statistics. This is because most residential leases fix payments for 12 months at a time. Even if new, currently available rents are lower, statistical measures of actual rent paid in any given month are essentially a rolling average of market rates over the last year.

During the press conference following FOMC's meeting, Chair Jerome Powell said,

"We're significantly closer to neutral. At 4.3 percent and change, we believe policy is still meaningfully restrictive. But as for additional cuts, we're going to be looking for further progress on inflation, as well as continued strength in the labor market. And as long as the economy and the labor market are solid, we can be cautious about, as we consider further cuts. And all of that is reflected, to your question, in the December SEP, which shows a median forecast of down two cuts next year compared to four in September."

Pricing of interest rate futures contracts indicates market participants have priced in an 88.8% likelihood that FOMC will maintain rates at current levels at its next meeting on January 28-29. Current pricing also suggests that the FOMC rate-cutting cycle will maintain rates at 4.00% – 4.25% through most of 2025.

As interest rates decline, market prices of outstanding fixed-rate bonds and other debt obligations rise. 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 exceeding 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.

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

Portfolio Segment	Market Value	Purchase Yield
Pooled Funds	\$624,467,554	3.35%
Cemetery Perpetual Care	\$5,250,199	4.04%
Bond Proceeds:		
CIB 2023 – Lyon Square	\$2,807,439	4.40%
CIB 2024 – Amphitheater	\$14,284,644	5.34%
CIB 2024 – Scribner	\$50,769,064	4.52%
CIB 2024 – ELC + Griff's	\$9,809,560	4.25%
CIB 2024 – Parks Improvements	\$10,582,163	5.00%
Total:	<u>\$747,726,019</u>	3.60%

The attached appendices detail portfolio holdings and recent trading activity. Please contact me at ext. 3498 with any questions on this report. Thank you.

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