



CITY OF GRAND RAPIDS AGENDA ACTION REQUEST

DATE: September 10, 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 14, 2024 through August 26, 2024

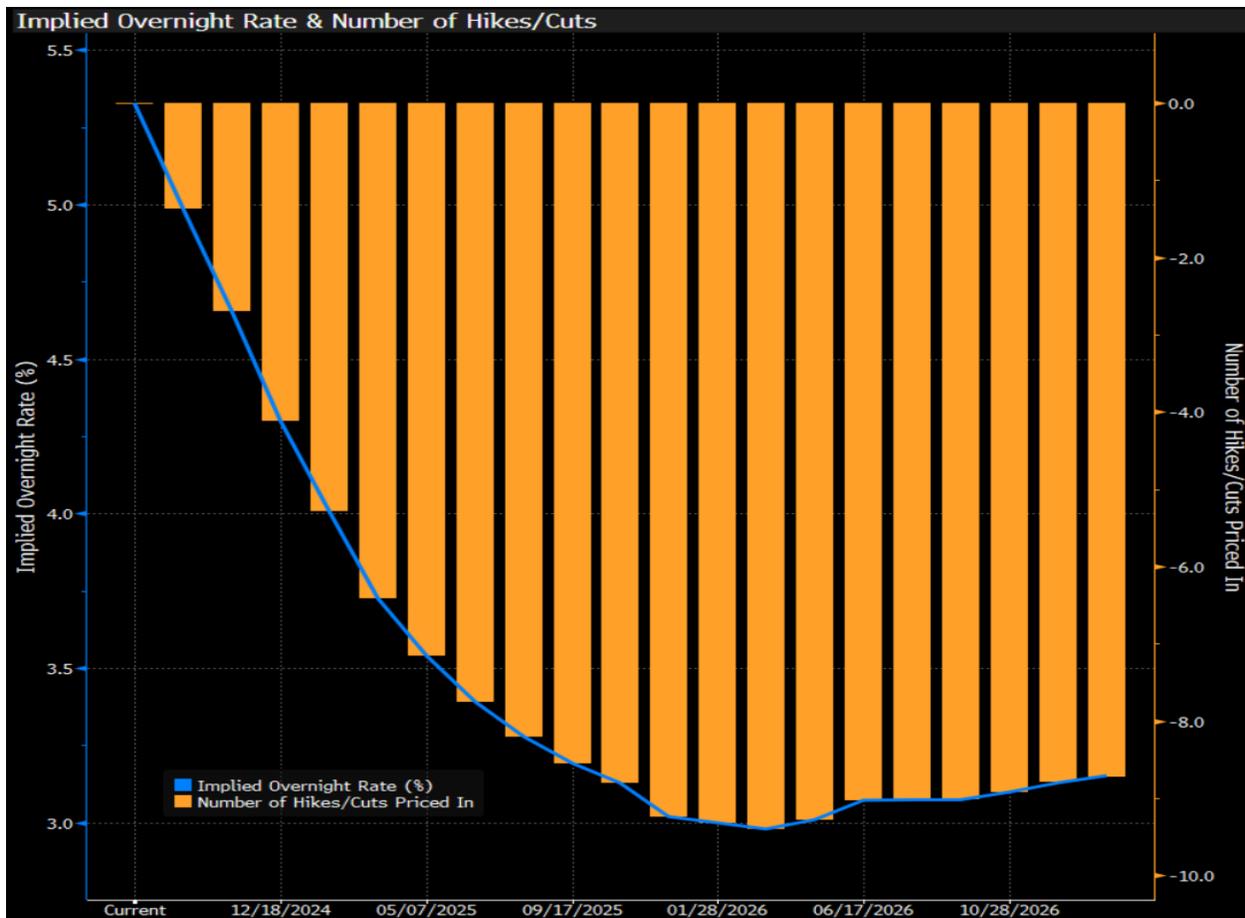
At the Federal Reserve's annual economic symposia in Jackson Hole, Wyoming, Chair Jerome Powell said,

"The upside risks to inflation have diminished. And the downside risks to employment have increased. As we highlighted in our last FOMC statement, we are attentive to the risks to both sides of our dual mandate.

"The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks."

This confirms market expectations that the Federal Reserve's Open Market Committee (FOMC) will begin easing monetary conditions by cutting interest rates at its next meeting September 17-18. FOMC is expected to release its quarterly Summary of Economic Projections, which discloses important insights into the Fed's interpretation of economic data. The exact timing and magnitude of interest rate cuts are yet to be determined. Chair Powell has repeatedly emphasized that FOMC's interest rate decisions are dependent on relevant economic data as it becomes available.

At present, the Fed Funds rate is targeted at 5.25% – 5.50%. Markets have priced in expectations FOMC will cut rates by 1.00% by the end of calendar 2024, settling around 3.25% in the latter half of 2025.



Source: Bloomberg

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.

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

Portfolio Segment	Market Value	Purchase Yield
Pooled Funds	\$657,678,450	3.44%
Cemetery Perpetual Care	\$5,199,189	4.44%
Bond Proceeds:		
CIB 2023 – Lyon Square	\$4,694,904	5.48%
CIB 2024 – Amphitheater	\$20,625,910	5.33%
CIB 2024 – Scribner	\$44,753,399	5.29%
Total:	<u>\$732,951,852</u>	3.60%

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