



CITY OF GRAND RAPIDS AGENDA ACTION REQUEST

Item Number: 3

DATE: April 15, 2025

TO: Mark Washington, City Manager

COMMITTEE: Fiscal Committee

LIAISON: Scott Saindon, Acting Chief Financial Officer

FROM: John M. Globensky, City Treasurer

SUBJECT: **Treasurer's Report for Period of March 8, 2025, through April 2, 2025**

Federal Economic Policy Uncertainty

The last Treasurer's report mentioned the economic policy uncertainty at the federal level. This includes expiring federal tax code provisions, continued rollout of tariffs, the possibility of a suspension of federal payments, and proposed rollbacks to economic regulations.

It takes time for our economy to work through the changes being implemented. There normally is an extended period of economic policy uncertainty with economic risks and real costs that must be digested. The announcements of new investment to reshore manufacturing facilities in the United States, while positive, take years to become operational. These long-term plans are critical to a thriving private sector. With the announcement of changes to tariffs and possible trade negotiations, we often see wild swings in the market. There isn't a crystal ball to predict the outcome. Economists estimate the current policy uncertainty alone is likely to account for a 1.1% drag on domestic industrial production, and 1.7% globally, over the next 12 months.

Impact of Federal Funding on City Operations

Federal funds are a vital resource for financing City activities and projects. Of the \$84 million in active federal awards, \$53.7 million remains to be drawn, as reported in the mid-year update. Currently, 71 staff members have a portion of their salaries funded through these federal resources. A potential freeze or reduction in federal funding could have significant impacts across various departments, including fire, police, community

development, and public accountability. Any disruption or reduction in this funding could place additional strain on the City's general fund.

When the City added grant-funded positions, past Fiscal Committee meetings focused on the grant-funded positions being phased out when the funding was no longer available. This is unfortunate for the impacted staff, but a fiscal reality as keeping the position would mean trying to find funding from existing sources that may already be strained or unsustainable long-term.

Weatherproofing for a Turbulent Times

To weather these challenges, our approach to the City's investment portfolio is quite conservative. The Treasurer's Office manages City funds with the primary goal of safety of principal, a secondary goal of ensuring sufficient liquidity to fund all anticipated City liabilities and obtaining competitive market yield as a tertiary objective. We take financial risk management and public trust very seriously; the structure of the City's portfolio reflects those values.

As the specter of a recession increases, fiscal prudence would dictate pulling back on spending and postponing projects to focus on the essential services the City is required by charter to provide. Taking on too many projects, requests for additional resources that weren't needed previously, incurring additional debt, and materially underestimating project costs may present fiscal challenges. Neither of these will help to weather a recession.

Interest Rates and Federal Open Market Committee

The future course of interest rates is also uncertain. Markets have priced in a 72.0% likelihood that the Federal Open Market Committee (FOMC) will maintain short-term interest rate target within the current 4.25% – 4.50% range at its May 6-7 meeting. Markets expect further rate cuts later this summer and fall, likely settling somewhere between 2.75% and 3.75%. The market's overall confidence in that projection is relatively low, as it is currently with most major economic indicators.

Impact of Interest Rate Changes on Investments

If interest rates decline, market prices of outstanding fixed-rate bonds and other debt obligations are expected to 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 any 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	\$600,785,726	3.12%
Cemetery Perpetual Care	\$5,315,825	3.73%
Bond Proceeds:		
CIB 2023 – Lyon Square	\$390,718	4.40%
CIB 2024 – Amphitheater	\$3,217,475	5.34%
CIB 2024 – Scribner	\$32,869,014	5.26%
CIB 2024 – ELC + Griff's	\$9,122,234	4.25%
CIB 2024 – Parks Improvements	\$9,935,730	5.00%
CIB 2024 – Parking Ramp	\$22,443,946	4.44%
Total:	<u>\$684,080,668</u>	3.32%

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

CORRECT IN FORM

DEPARTMENT OF LAW