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# CITY OF GRAND RAPIDS AGENDA ACTION REQUEST

Item Number: 2

**DATE:** March 25, 2025

**TO:** Mark Washington, City Manager

**COMMITTEE:** Fiscal Committee

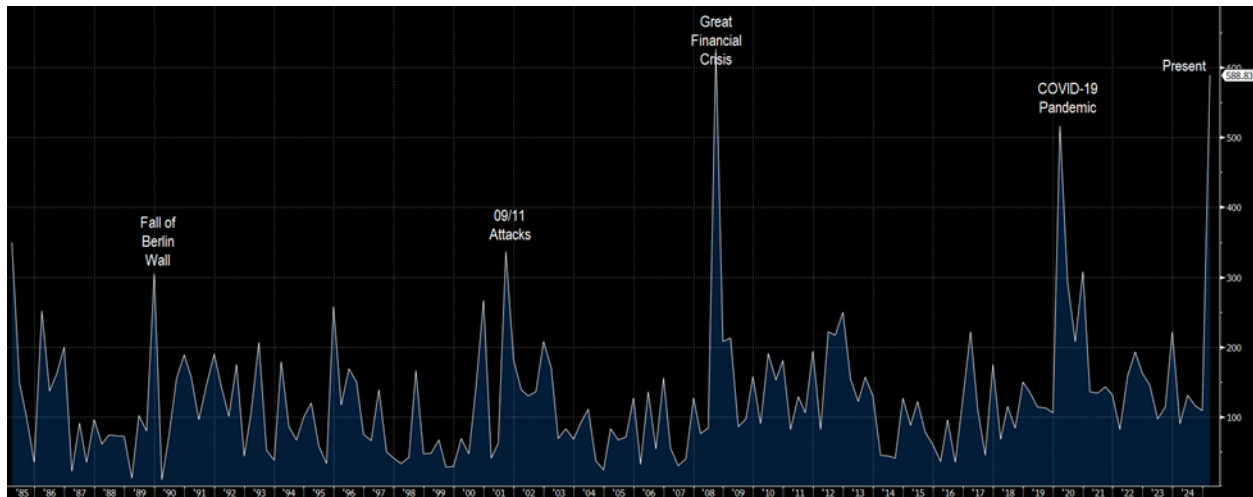
**LIAISON:** Scott Saindon, Acting Chief Financial Officer

**FROM:** John M. Globensky, City Treasurer

**SUBJECT:** Treasurer's Report for Period of February 26, 2025, through March 7, 2025

## Federal Economic Policy Uncertainty and Its Impact on City Investments

Since November, federal economic policy uncertainty has increased significantly, with measurable effects. The U.S. Economic Policy Uncertainty Index is currently at its highest level since the COVID-19 pandemic, reaching similar levels to those observed during the 2008-2009 Great Financial Crisis.



Source: Bloomberg

Economic policy uncertainty manifests in several ways, including federal tax changes, emergency tariffs imposed on the country's three largest trading partners, and the

temporary suspension of numerous federal grant payments. As the new administration advances its agenda, the uncertainty is further exacerbated by the potential rollback of economically significant federal regulations.

Even if policy outcomes are favorable, the inherent uncertainty itself poses economic risks and incurs tangible costs. To navigate these challenges, our approach to City investments remains highly conservative.

### **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.

### **Investment Strategy and Liquidity Management**

During the Fiscal Committee meeting on March 11, 2025, we discussed how our conservative investment strategy incorporates a margin of safety to ensure liquidity in the event of unexpected challenges. However, a significant interruption in anticipated federal funding would necessitate a reevaluation of our cash flow forecasts, which underpin our portfolio strategy. To mitigate risks, we are holding \$125 million in readily available funds, which are designed to offset potential liquidity challenges. Additionally, our investment portfolio is structured to ensure that investments mature in alignment with payroll and debt service obligations. We are closely monitoring income tax collections and the upcoming Summer Property Tax billing, scheduled for July 1st, to identify any potential revenue challenges.

### **Uncertainty in Interest Rates**

The future trajectory of interest rates remains highly uncertain. Market expectations currently indicate a 95% probability that the Federal Open Market Committee (FOMC) will maintain the short-term interest rate target within the current range of 4.00% – 4.25% at its meeting on March 18-19. However, there is greater uncertainty surrounding the FOMC's May 6-7 meeting, with market prices reflecting a 50.3% likelihood of the rate remaining unchanged, a 47.3% probability of a 0.25% rate cut, and a 2.4% chance of a 0.50% rate cut. Expectations for further rate cuts later this year have also risen.

## Impact of Interest Rate Changes on Investments

Should interest rates decline, market prices for outstanding fixed-rate bonds and other debt instruments are expected to rise. Conversely, when interest rates increase, market prices generally decline. The magnitude of these changes is proportional to the time to maturity of the instruments. It is important to note that any unrealized gains or losses on these securities are "on paper" only and do not affect the portfolio's cash flow or interest earnings unless the securities are sold prior to maturity. Governmental accounting standards require that the portfolio be marked to current market prices on the City's financial statements. As such, unrealized gains or losses are purely indicative and do not impact the City's liquidity or ability to meet current expenditure needs.

## Treasurer's Office Investment Management Goals

The Treasurer's Office manages the City's investment portfolio with three key objectives: the safety of the principal, sufficient liquidity to meet expected liabilities, and the generation of competitive returns on invested funds. By selecting securities with positive cash flows during periods of expected drawdowns, the Treasurer's Office maximizes the City's capital while minimizing the risk of a liquidity shortfall that could jeopardize principal. This approach also allows for flexibility to capitalize on emerging market opportunities. Effective communication among City staff—particularly regarding the timing of major expenditures—is essential to the success of this strategy.

## Investment Portfolio Overview

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

Portfolio Segment	Market Value	Purchase Yield
Pooled Funds	\$632,507,085	3.00%
Cemetery Perpetual Care	\$5,293,438	3.73%
Bond Proceeds:		
CIB 2023 – Lyon Square	\$664,895	4.40%
CIB 2024 – Amphitheater	\$8,087,804	5.34%
CIB 2024 – Scribner	\$33,048,124	5.26%
CIB 2024 – ELC + Griff's	\$9,267,056	4.25%
CIB 2024 – Parks Improvements	\$9,915,832	5.00%
CIB 2024 – Parking Ramp	\$22,358,762	4.44%
<b>Total:</b>	<b>\$721,142,995</b>	<b>3.22%</b>



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

CORRECT IN FORM  
  
DEPARTMENT OF LAW