Joint Finance Committee Treasury Investment Board Meeting
Thursday, November 7, 2024, 10:00 a.m. Village Hall

Present: Finance Committee Chairman Berger (10:20 a.m.), Council Member Galicki, Mayor Koons, Fiscal Officer Romanowski, Solicitor Matheney, Eileen Stanic from Meeder Investments

Galicki indicated that the purpose of the meeting was to discuss the latest thoughts as to where the Village's investments should best be. Eileen Stanic, Meeder Investments, first addressed the cash flow in conjunction with where the investment portfolio is currently. With information provided by the Fiscal Officer, Stanic provided a graph of the cash flow for the Village for the past four years. The only notable trend was one of relative stability. The bar graph illuminated the minimum cash balance within each year, which serves as a baseline starting point for determining how much money to put in the investment portfolio. Looking at the four years, there is not a marginal difference. This year's lowest point thus far was $2.7 million. The low points generally occur in January or December. Stanic took this figure and then applied anticipated capital expenditure items that are not normally incurred in the ordinary course of business, like the park restroom, salt storage building, and police garage. The funds for these projects should not be invested in a core investment portfolio; it needs to be kept liquid. The next step is to determine what is really the excess cash is of the low point. Stanic calculated this to be $1.7 million, and explained that from this sum, it should be determined how much to keep in checking to make payroll and expenses, and how much to have in the investment portfolio. Her recommendation was an 80/20 rule, keeping 20% of the true excess cash in checking and the balance in the investment portfolio.

There was discussion about the positive nature of the Village's financial stability and Stanic concluded that there is a high level of professional stewardship as it relates to the Village.

Looking at the core cash that is not earmarked for major capital expenditures would mean taking the $1.7 million and determining to keep the cash between $400,000 and $450,000. If it falls below, then something needs to come out of the investment portfolio. This would enable the Village to take another $300,000 out of cash and put it in the investment portfolio. The Village currently has $1,056,000 invested. Stanic agreed that this would mean moving money a little more. The Solicitor asked if it would be this year the Village would be increasing the amount invested to $1.3 or next year. Stanic said it could be either and would defer to the Village's comfort with this proposed approach. The overnight rates are still very generous but will continue to change over the balance of this year. There may be some merit in waiting a little bit and continue to earn almost 5% in STAR Ohio. She suggested that with $1,000,000 in STAR OHIO, $1,000,000 in the securities, and $1,000,000 in checking, the Village can move more over into the STAR Ohio account to take advantage of the opportunity along with the liquidity piece. This might be the first step in managing down the balance in the checking account by looking at it once a month. The Mayor asked how much should be moved into STAR Ohio, and Stanic suggested bringing the checking down to $450,000 or $500,000.

Stanic discussed the status of the current investments and advised that the $1,056,000 is yielding 4.18%. There is a significant amount of money that is available to put out longer term. There was discussion about starting to extend the portfolio, but she thought having the cash discussion first was important before doing this. She stated that no opportunities have been missed. The short-term rates have been higher than the long-term rates up until recently. Meeder takes a measured, conservative approach to understand the Village's cashflow before moving forward, which has benefitted the Village.

Stanic discussed what is happening in the marketplace by reviewing the booklet she distributed. She explained that Meeder makes decisions about investing funds by considering the following metrics: federal funds rate, inflation, growth, employment, and yields. The Federal Reserve met yesterday, and it is expected that they will reduce rates another 25 basis points. During 2022-2023, the Fed raised rates dramatically, but then paused in July 2023. In September 2024, the Fed did its first rate cut of 50 basis points. At that point, they released an updated forecast where interest rates on a short-term basis would continue to fall into 2026, which may have to be reevaluated. The markets change daily, and her job is to interpret the data and look at the underlying data to decide as to whether it makes sense to continue to lock in longer term or shorten up. The committee discussed the implications of a change in administration with the 2024 Presidential election.

Stanic discussed that inflation had come down and the economy was doing fine although a little below trend. Regarding the labor market, unemployment is up, but employment numbers are still strong. Stanic further discussed the Federal Reserve rate cuts, and said the expectations are that there may be more rate cuts but not to the extent that was expected prior to the election. Stanic discussed inflation in more detail, which has come down closer to the Fed target or 2% and the labor market which has slowed down over the past few months. The graphic provided for economic growth was pre-election and based on the market's assumption that the economy would continue along the path based on the Biden administration, which was that economic growth would start to slow. Stimulus dollars had been spent and the impact of inflation had been a crunch on the consumer, particularly the lower income consumer. The higher income consumer benefited from higher interest rates, but the lower consumer that relies on credit did not because credit is more expensive. Thus, there are two views of how the economic environment has impacted the consumer. With a change in administration, there is an expectation that the growth numbers will change.

Regarding employment, Stanic reviewed how labor statistics are determined, which is a multiphase process. Over the past several months, job growth has slowed. However, there has not been an uptick in people being laid off and applying for unemployment insurance.

Stanic reviewed yields from a more long-term view. Over the past 20 years, if the Village can get locked in over 4% or better on a long-term view, it will be in a better position relative to where the 2-year Treasury has been in the past 20 years. By locking it in, it provides stability in the interest income.

Stanic explained that the Village's cash balances as of September 30th are $1 million in STAR Ohio and $1 million in investments. The Fiscal Officer added that the committee had previously discussed keeping $1 million in the checking account, but Stanic recommends keeping less because the Village gets a higher rate with STAR Ohio while having the flexibility of moving the money. Berger was comfortable with this recommendation and asked about the long-term asset allocation. Stanic explained that it would be to get about 40% locked in beyond three years and allocating the funds across the full maturity spectrum. Berger asked what the difference was between a 2-year yield versus a 3-year. Stanic said it is about the same. Berger asked why then the Village would want to lock in. Stanic said it would be for protection and stability. It would be done with a portion of the portfolio so it would not be all-in. It allows them to balance building the stream of income and having flexibility. Berger asked if Stanic was predicting that in a year, the 2-year note will be lower or higher than 4%. She cautioned that no one knows with certainty and Meeder is not in the business of projecting where interest rates will be at any given point in time. She uses a duration standpoint, and said the goal would be to get the duration of two and a half years. Stanic discussed the impact of anticipated changes with the new administration relative to interest rates and inflation. Berger expressed a discomfort with the three-year concept because he did not think the data was available as to where the market is headed. Stanic appreciated Berger's concerns and explained the Village could hold off on going longer term and look at investing funds with a maximum of three years. Were the Village to opt to shut it down, she feared the Village would miss out. However, bad things can happen and locking in at a higher rate is a form of insurance in that it protects against the unknown. Berger concluded that while Stanic is looking for stability, he is looking for a bomb shelter. He has no confidence in what the market will look like two years from now. As a steward of the Village's money, he would go very conservative at this point and wait to see what the new administration will do.

Galicki asked if the Village would be locked in for the longer-term investments, preventing a course correction. The Fiscal Officer replied that there is no access to the money. Berger explained that it can be sold, but the market will adjust the price based on real interest rates resulting in paying a penalty to get out. Stanic explained that when there are longer term investments, in time they become shorter. Even if the rates increase, are you better off selling and realizing a loss and buying longer term. Berger said it depends on the spread. Stanic concluded that if the committee's comfort level is to keep the portfolio shorter term, and is okay with a maximum maturity of two years, she can do that. Berger explained that if it is possible to lock in 4% now, he did not think they would see unusual moves from the Fed at least initially. A two-year projection is a safe one.

Stanic suggested that she meet with the Treasury Investment Board in three months. She did not disagree with Berger and said that no one knows with certainty where things are headed post-election. The Fiscal Officer added that she liked the idea of reducing the Huntington account and going with STAR Ohio and becoming more familiar with this piece. After Council reviews and decides the budget for 2025, they will have a better idea because next year will be a big year for the Village in terms of expenses. The Mayor concluded that this needed to be done by the end of November. Stanic agreed.

The Solicitor asked for clarification about the budget, and the Fiscal Officer indicated that after the Budget Work Session, she put all the wish lists together for the upcoming Council meeting and it may be an eye opener. She reiterated that she would get more money over to STAR Ohio immediately. Berger concluded that the resolution could be amended to lower the threshold to move the money.

The Solicitor also addressed the need to include the vacant seat on the Treasury Investment Board for the next agenda. February 10, 2025, at 10:00 was discussed for the next meeting. The Fiscal Officer suggested that the Finance Committee consider meeting on Tuesday, November 12th at 10:00 a.m. before the Council meeting. This will replace the meeting scheduled for November 14th.

The meeting adjourned at 11:02 a.m.

Prepared by Leslie Galicki

Cash Flow

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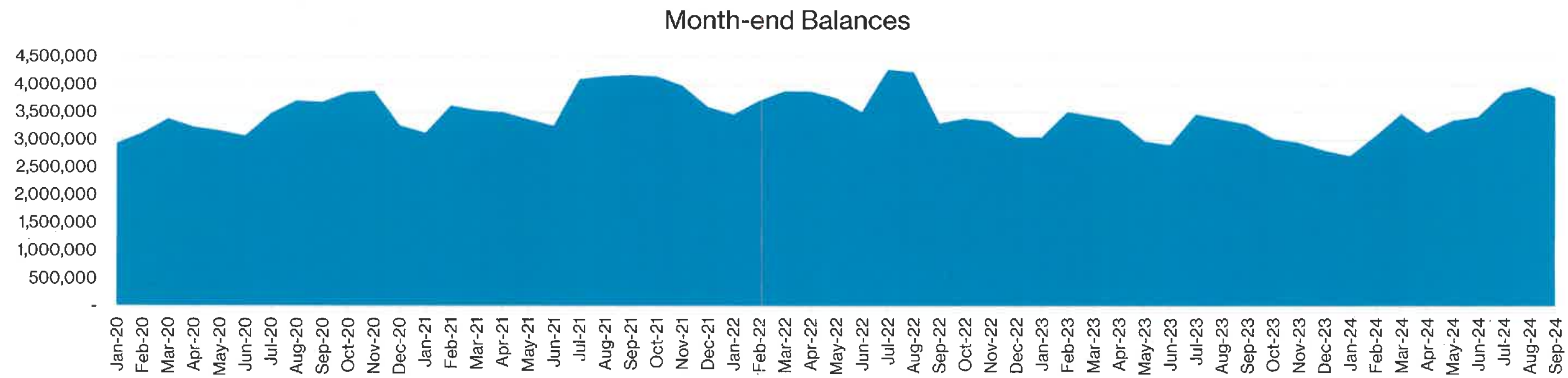

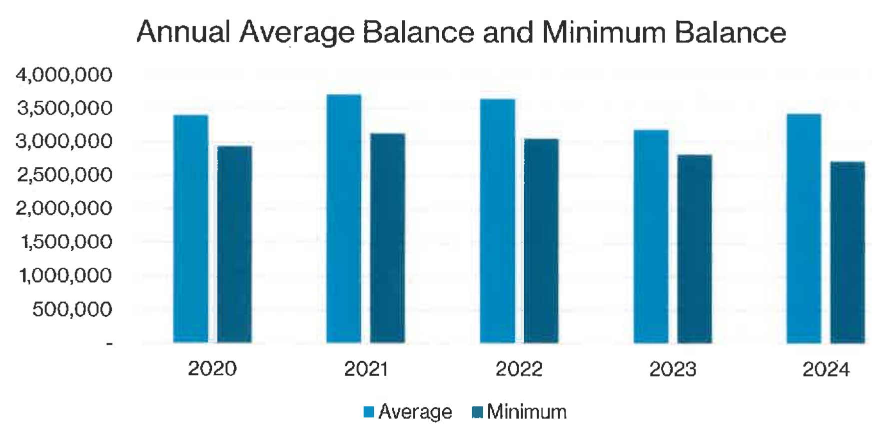

2024 Minimum balance		2,717,729
less Capital Expenditures		
Park restroom	112,000.0	
Salt Building	775,000.0	
Police Garage	100,000.0	
		987,000
Available Cash		1,730,729
Proposed Allocation		
Cash		430,729
Investments		1,300,000
Total		1,730,729

SOURCE: DATA PROVIDED BY VILLAGE

NOVEMBER 7, 2024

Village of South Russell Investment Strategy Update

PRESENTED BY:

EILEEN STANIC, CTP
REGIONAL DIRECTOR, ADVISORY SERVICES

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ECONOMIC UPDATE

FIGEY Outlook and Commentary

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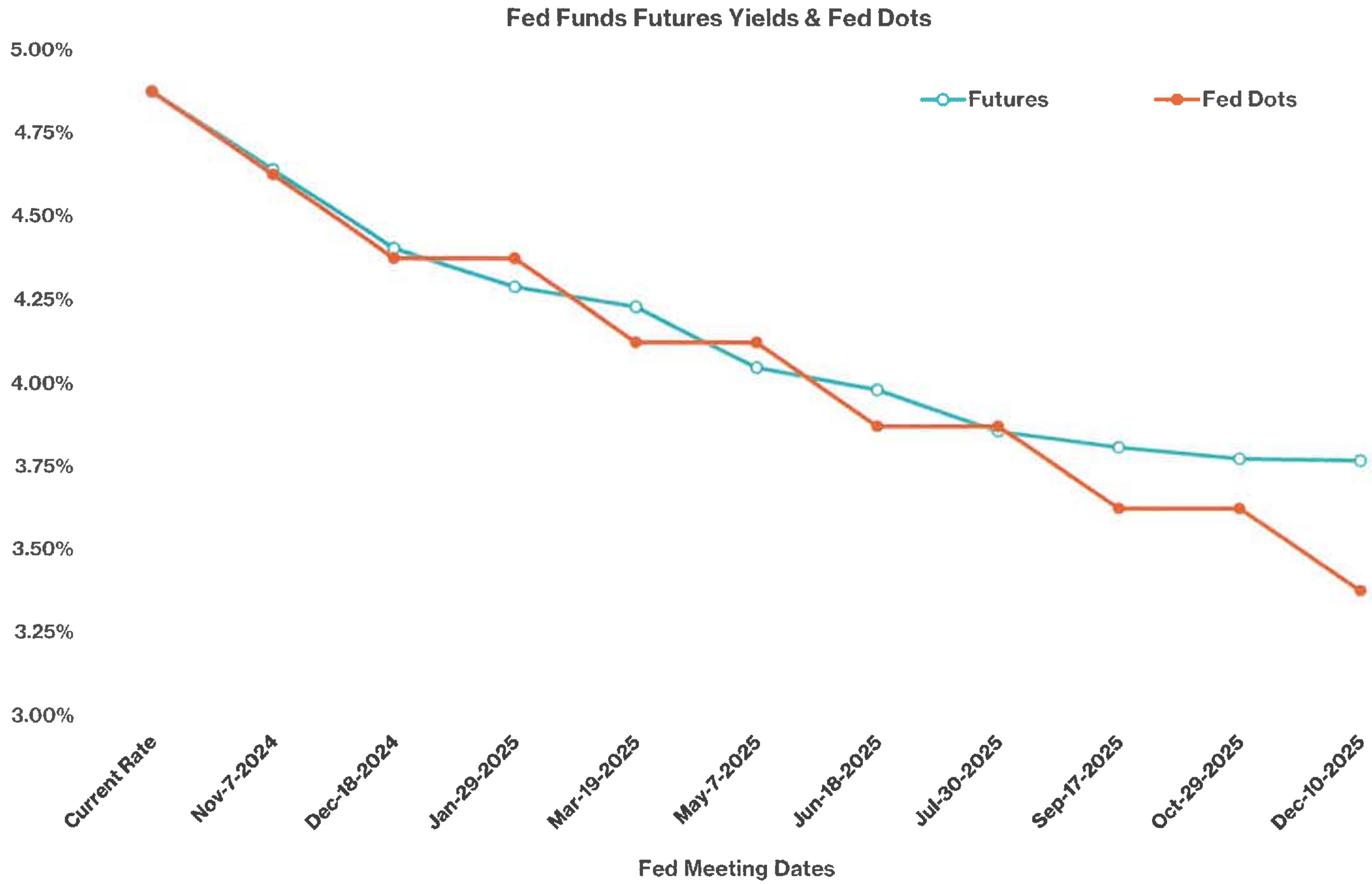
Metric	Analysis
Fed Funds Rate	As the Federal Reserve attempts to navigate a "soft landing," both the Fed Funds futures market and the FOMC dot plot are pricing in two additional 25 basis point (0.25%) cuts in 2024.
Inflation	The Fed's preferred inflation gauge, Core PCE YoY, has dropped from its cycle high of 5.6% to 2.7%. The Fed is expecting this inflation metric to decline to 2.2% in 2025, getting close to their 2% target rate.
Growth	GDP had another stellar quarter (Q3 2024), growing by 2.8% . Additionally, the Fed is expecting the GDP YoY rate for 2025 to be 2.0%.
Employment	Nonfarm payrolls have slowed materially in October due to hurricane and strike impacts. The unemployment rate remains historically low. The Federal Reserve projects the unemployment rate will rise slightly from its current 4.1% to 4.4% in 2025.
Yields	The 2-year Treasury yield has dropped about 100 basis points from its cycle high (Oct 2023) but is still approximately 230 basis points above its average of the past 20 years.

SOURCE: MEEDER PUBLIC FUNDS AS OF 10/18/24

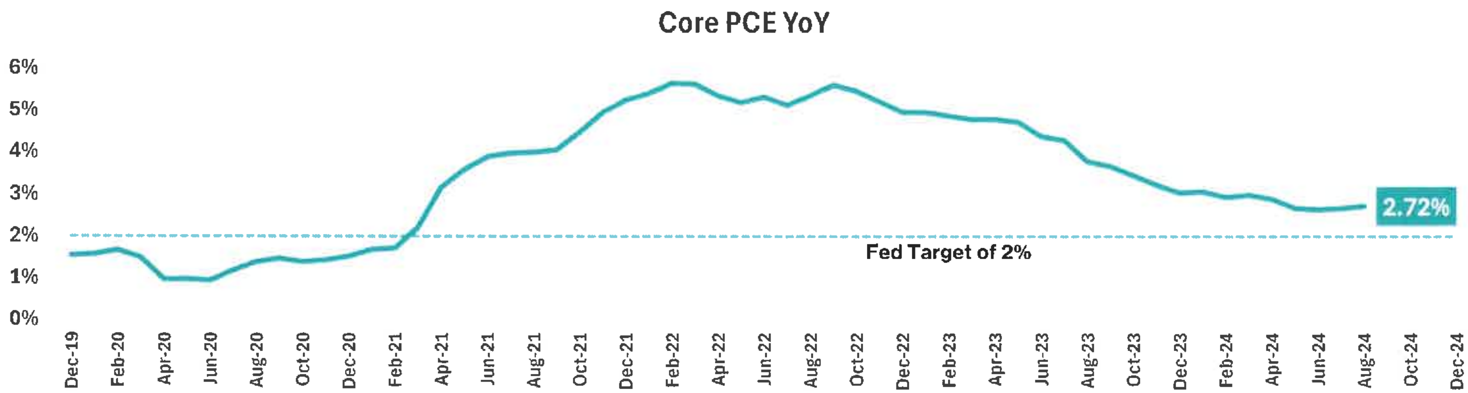
Fed Funds

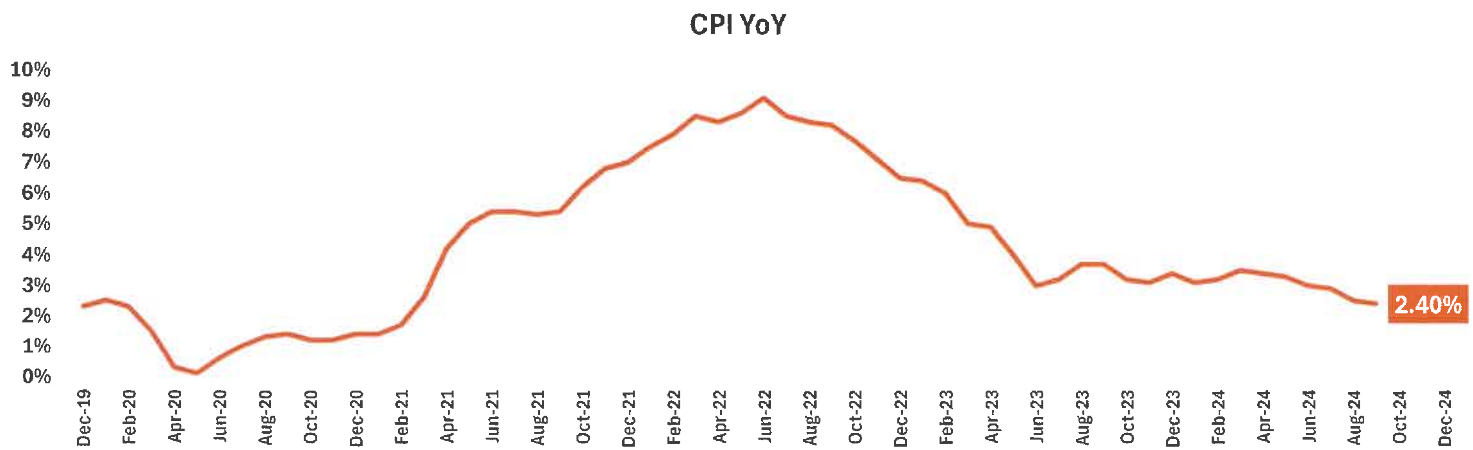


- The Federal Reserve executed the first lowering of the Fed Funds rate since 2020 at the September 18th meeting.
- The Fed expects to cut the Fed Funds rate by .50% or 50 basis points by the end of 2024 and then by another 1.00% by the end of 2025.

SOURCE: BLOOMBERG AS OF 11/6/24

Inflation





SOURCE: BLOOMBERG, BUREAU OF LABOR STATISTICS, BUREAU OF ECONOMIC ANALYSIS

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- The Fed's preferred inflation gage, Core Personal Consumption Expenditure, has dropped materially from its 2022 high, but has remain somewhat sticky in the mid-2 percent range.
- The year-over-year Consumer Price Index continues its decline, also in the mid-2 percent range.
- Even though inflation's year-over-year rate of change has dropped, overall inflation is up about 20 percent from pre-COVID levels.

Growth

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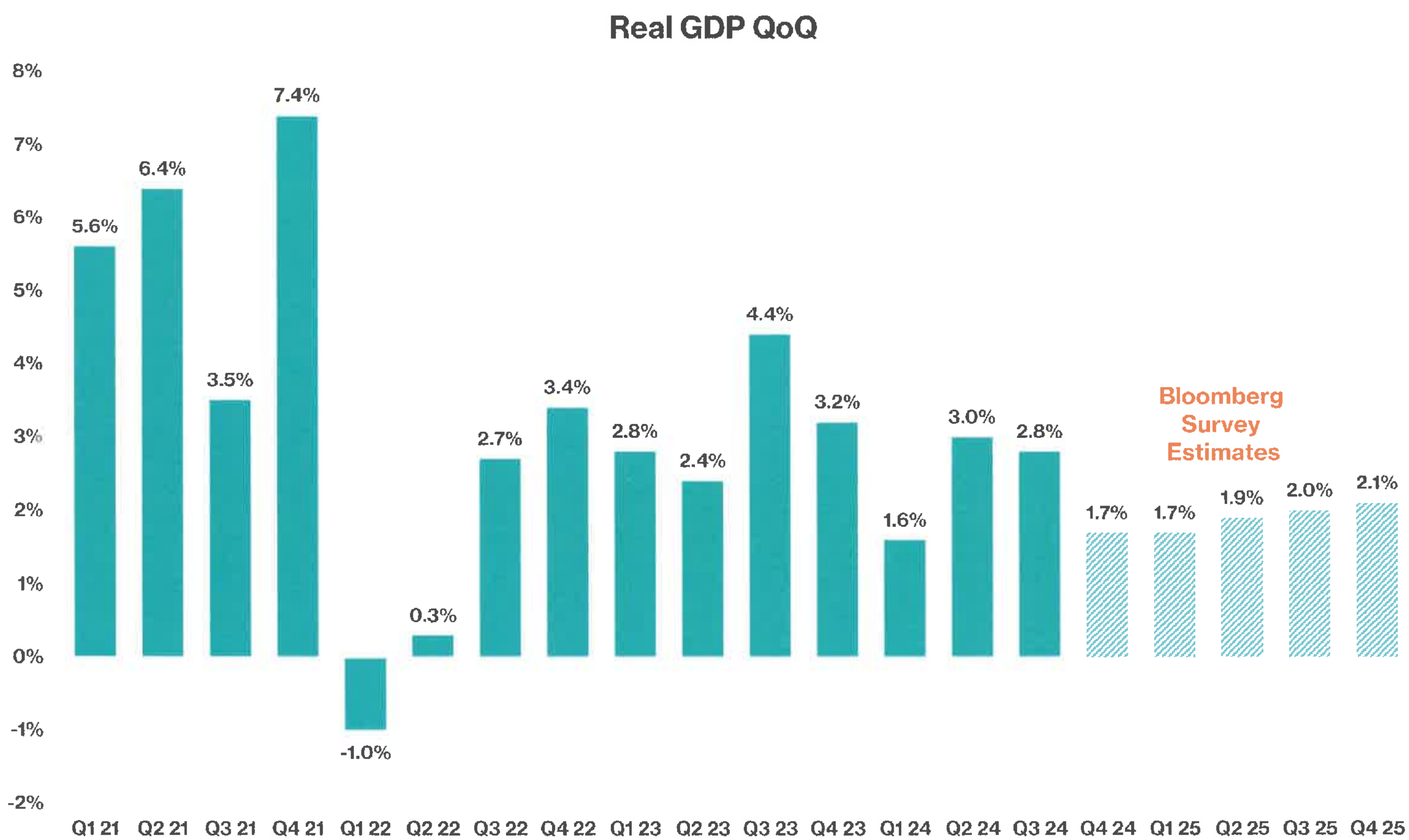
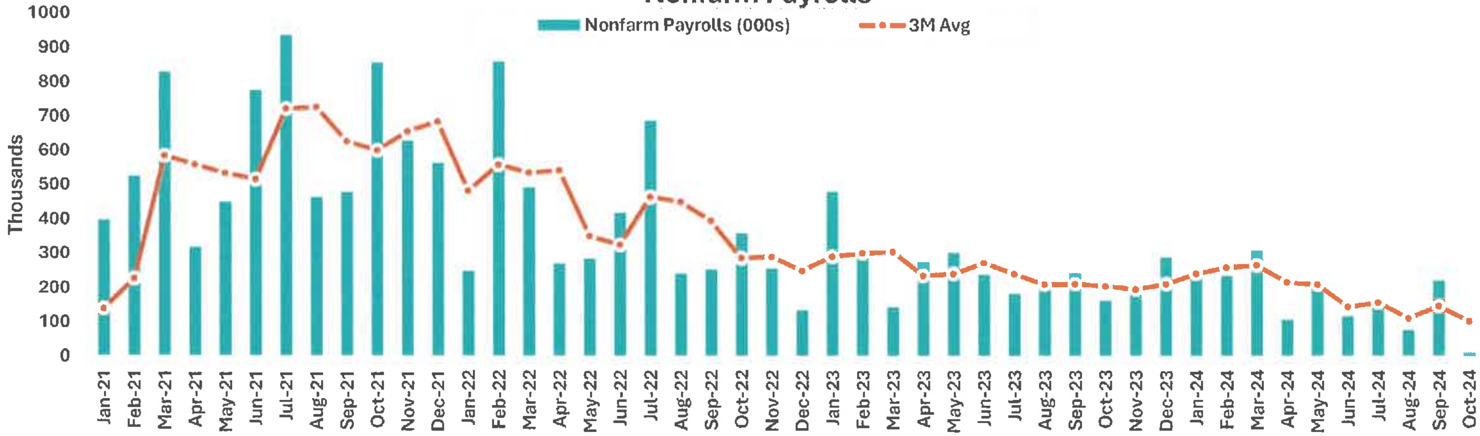


SOURCE: BLOOMBERG, BUREAU OF ECONOMIC ANALYSIS

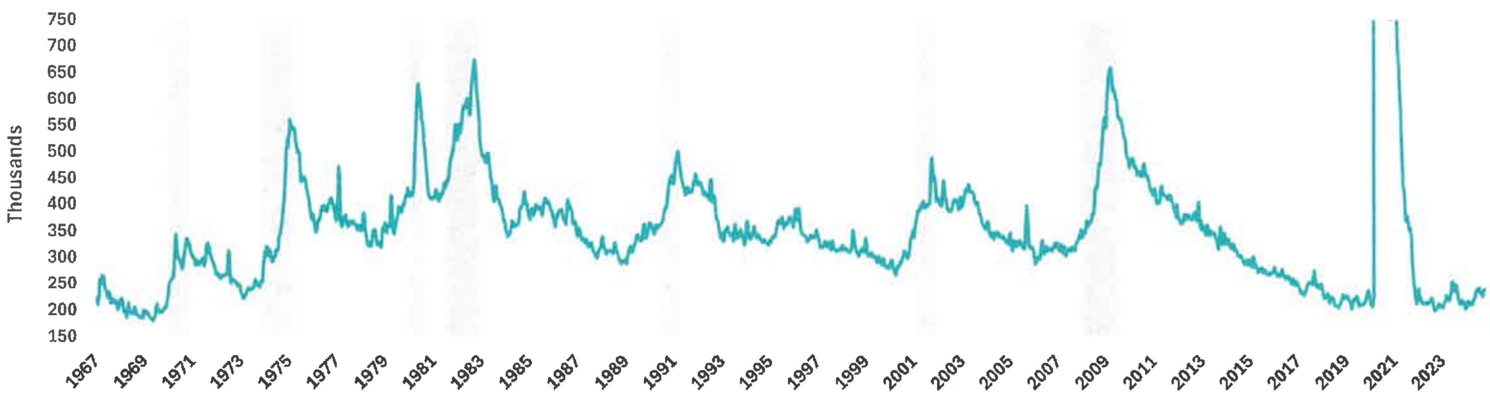
- For the past few years, economists surveyed by Bloomberg have been underestimating U.S. economic growth.
- During mid-2023, this survey showed Gross Domestic Product (GDP) would be less than 1 percent for 2024.
- High levels of federal spending and spending from higher-income households have helped keep 2024's GDP at an elevated level.
- These economists are currently expecting sub-2 percent GDP for 2025. Hopefully, that is underestimating next year's economic growth as well.

Employment

Nonfarm Payrolls



Weekly Initial Jobless (Unemployment) Claims



SOURCE: BLOOMBERG, BUREAU OF ECONOMIC ANALYSIS

- Job growth slowed in October due to the impacts of hurricanes and strikes.
- The unemployment rate has risen to 4.1% from last year's low of 3.4%.
- A 4.1% unemployment rate is very low historically.
- Weekly Initial Jobless (unemployment) Claims remain at historically low levels.

Yields

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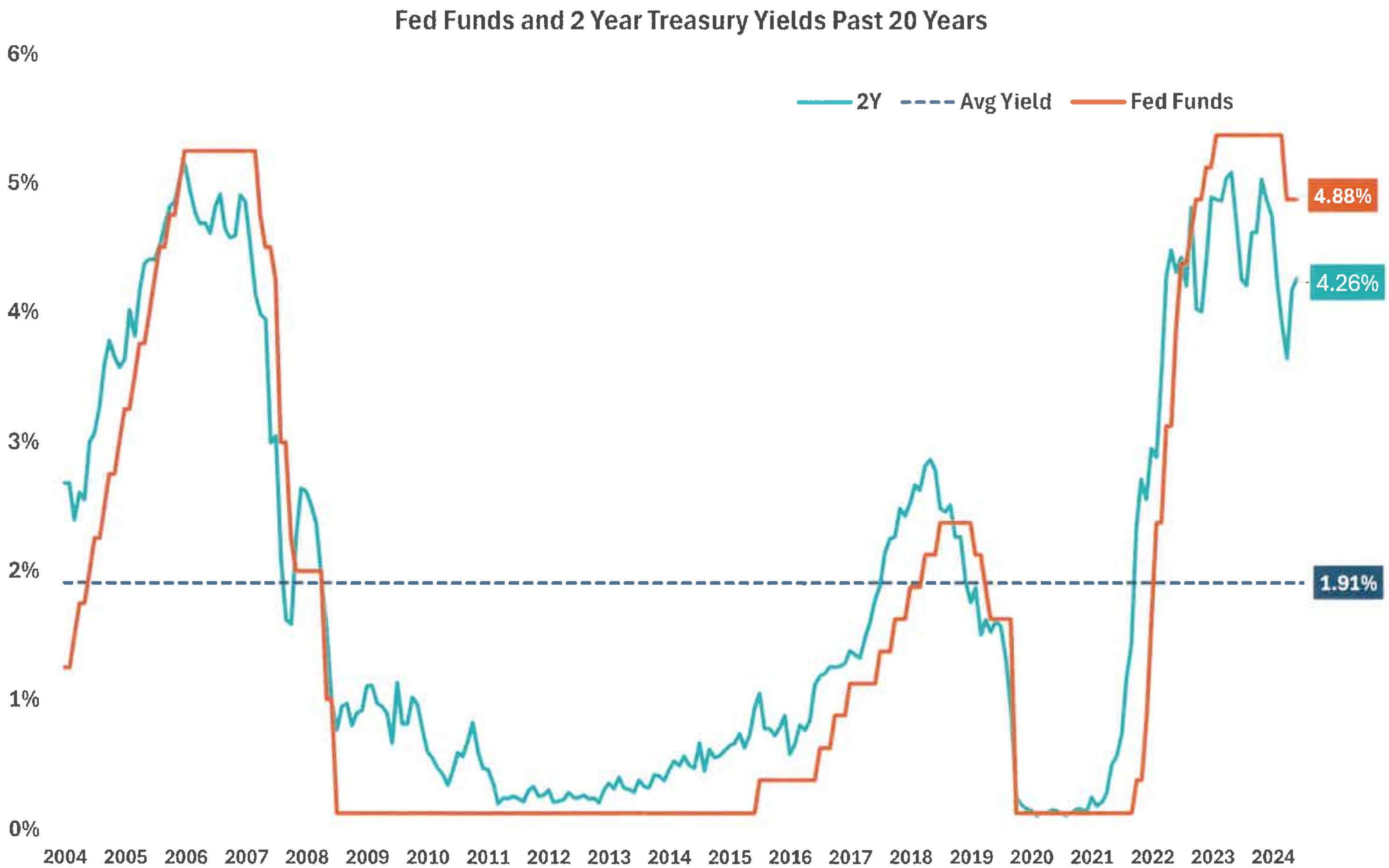

- Intermediate-term interest rates peaked in October of 2023, with the 2-year Treasury hitting a cycle high of 5.22%.
- Even though interest rates have declined with lower inflation, they are still materially higher than the average the past 20 years.
- We expect the short-term rates (one year and in) to continue their recent decline with future Fed rate cuts on the horizon.
- Intermediate-term rates may pause their decline as market participants evaluate the balance between economic growth and inflation.

SOURCE: BLOOMBERG AS OF 11/6/24

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PORTFOLIO REVIEW

Current Portfolio

Village of South Russell portfolio as of 10/31/2024

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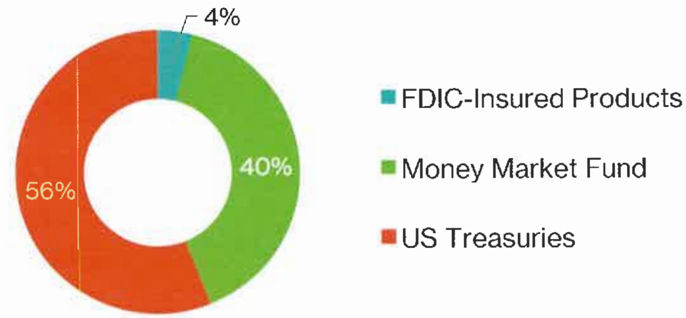
Your Portfolio

Cash	$1,087,790
Securities	$1,056,449
Total Portfolio	$2,144,239

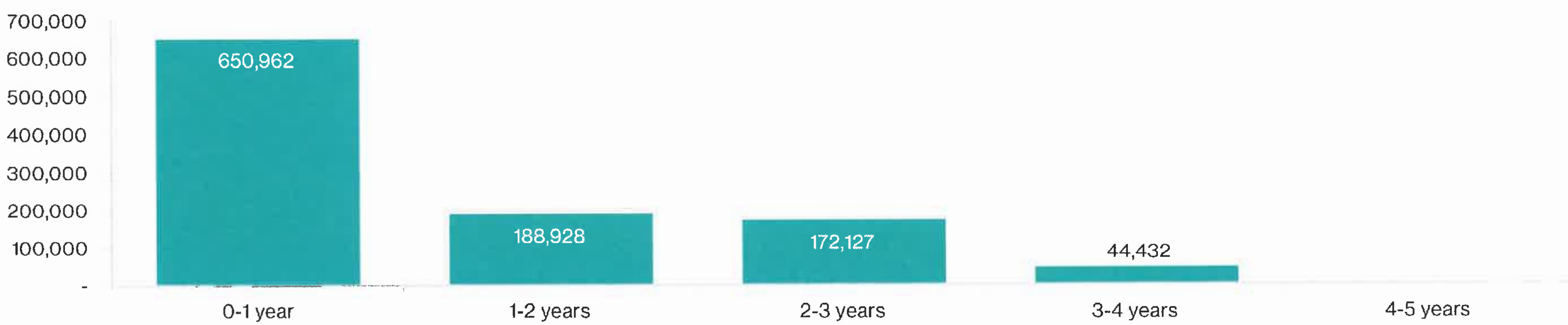
Your Securities

Weighted Average Maturity	0.93 years
Weighted Effective Duration	0.90 years
Weighted Average Yield	4.18%

Your Asset Allocation



Your Maturity Distribution



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