

To: Benjamin I. Myers, City Manager

From: Melissa R. Marsh, Deputy City Manager - Administrative Services

Date: April 13, 2015

RE: Investment Report 3rd Quarter of Fiscal Year 2015

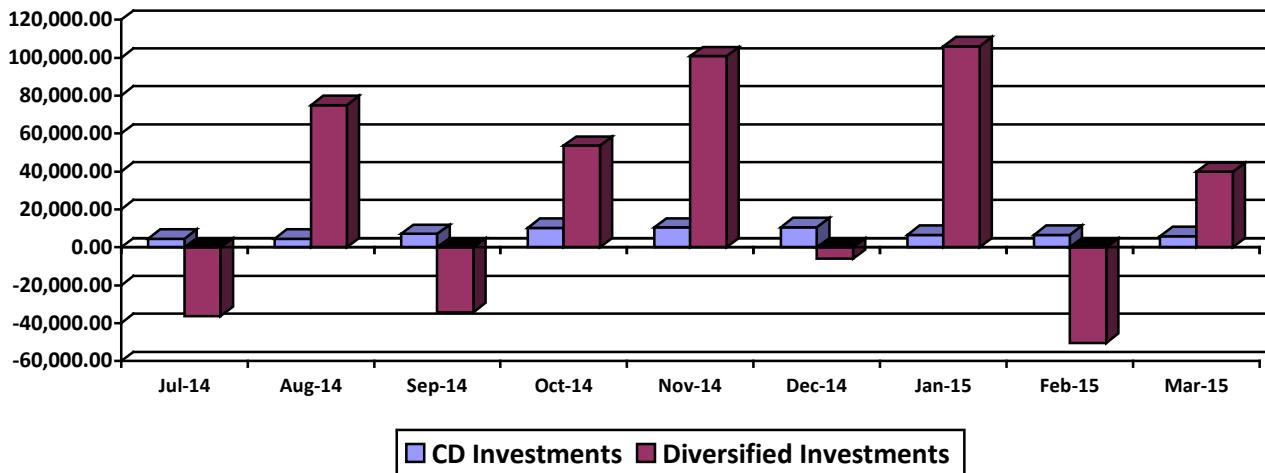
A summary of the investments for the City of Madison Heights as of March 31, 2015 is included in this memo. The requirements of the City of Madison Heights Investment Policy and P.A. 20 of 1943, as amended, govern the investments held by the City.

Interest Rate Overview:

Information received since the Federal Open Market Committee (FOMC) met in January suggests that economic growth has moderated somewhat. Inflation has declined further below the Committee's longer-run objective, largely reflecting declines in energy prices. On March 18, 2015 the Committee reaffirmed its view that the current 0 to .25 percent target for federal fund rates remains appropriate. Consistent with its previous statement, the Committee judges that an increase in the target range for federal funds remains unlikely at the April FOMC meeting. The Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term. This change does not indicate that the Committee has decided on the timing of the initial increase in the target range. The Committee is also maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. This policy should help maintain accommodative financial conditions.

Locally we continue to diversify investments instead of moving to vehicles such as 100% Certificates of Deposit. This is due to the long term nature of our fixed rate investments and the higher rate of return we will realize by holding these fixed rate vehicles such as bonds and treasuries until either the call date or maturity. As explained in previous reports, in any given quarter, the method of marking investments to market value (which refers to accounting for the fair value of an asset or liability based on its current market price) may result in loss; however, holding bonds until maturity would result in the total return of investment. I have included a chart below that compares our current returns with what our returns would be if we were invested 100% in Certificates of Deposit at the rate of 0.35% during the January - March period (the average rate of return for CDs). Investing completely in CDs for the fiscal year to date would have yielded approximately \$55,292 in investment earnings; instead we earned \$264,587 through March by following our diversified investment plan.

Investment Earnings



Risk:

Interest rate risk is the risk that interest rates will change and adversely affect the fair value of the investment of the government's cash flows. The City attempts to limit exposure to a possible decline in fair market value by diversifying maturity dates.

Credit risk is the risk that the investment will not fulfill its promise to pay the investor when required. There is a credit risk associated with all financial institutions, brokers and investment vehicles. The City attempts to limit exposure to credit risk by diversifying the holders of investments, maintaining a high credit rating for investments, and restricting Certificates of Deposit investments to those with financial institutions that are members of the Federal Deposit Insurance Corporation (FDIC).

Concentration of risk occurs when the municipality is heavily invested in one issuer. The city's largest issuer is the Local Government Investment Pool managed by Oakland County. This pool is diversified with other County investments.

Quarter Investments:

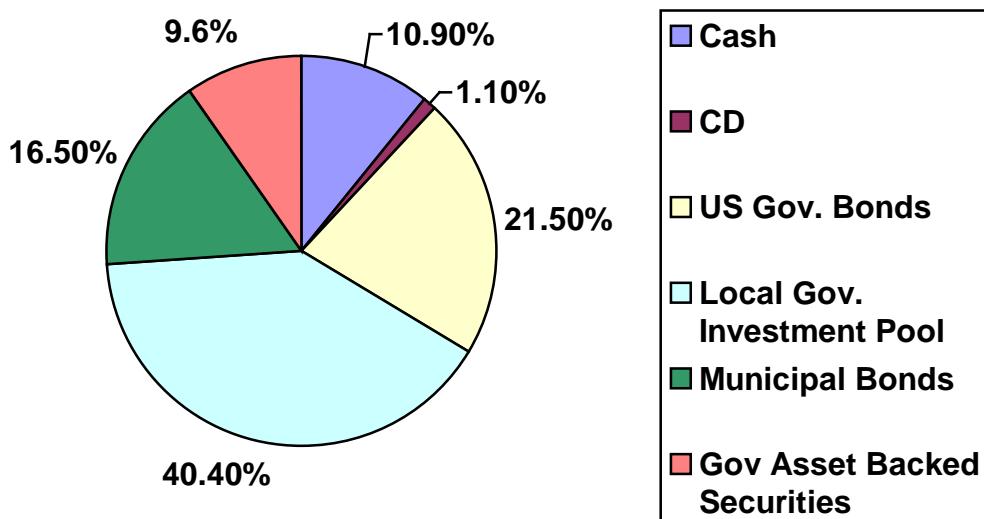
As of March 31, 2015, the City has the following Cash and Investment balances (combination of all funds, excluding pension and health care savings funds).

Total amount in the cash accounts	\$ 2,502,998
Total amount in Investments	<u>20,435,547</u>
	\$22,938,545

The chart below details the diversification of the City investments as of March 31, 2015.

Diversification – Third Quarter of Fiscal Year 2015

Last Day of the Quarter



In accordance with the City's investment policy, the City limits its exposure to possible decline in fair market value by maintaining diversification and controlling maturity dates. The table below details the amounts at March 31, 2015. There is a difference between the coupon rate (i.e. yield at issue date) and the estimated quarterly annual yield. When a bond is issued, it has a coupon rate until it matures. This rate is related to the current interest rates. When a bond is sold or called before maturity, the value of the bond, not the coupon, will be affected by the current market interest rates. If current interest rates are higher than the coupon, the bond will sell below its face value. When interest rates are lower, they are sold at a premium or higher than face value. A bond's estimated annual yield is related to the current prevailing interest rates. A bond's yield is its annual interest (coupon) divided by its current market price.

Investment Listing, by Security Type

Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Annual Yield to Maturity	Accrued Interest	Estimated Annual Income	% of Total Portfolio
Fixed Income Assets								
Government Bonds	\$5,316,748	\$ 4,877,874	\$ 4,922,694	\$ 44,820	1.95%	\$ 19,143	\$143,548	24.0%
Securities	2,174,000	2,195,167	2,212,947	17,779	3.64%	3,971	29,429	10.8%
Municipal Bonds	3,735,000	3,769,535	3,774,353	4,818	2.20%	46,837	110,598	18.5%
Flagstar Certificates of Deposit	255,505	255,505	255,505	-	0.50%	638.50	1,277	1.3%
Local Government Investment Pool/Money Market								
Total Investments	9,270,048	9,270,048	9,270,048	-	1.15%	-	70,289	45.4%
				\$20,435,547				100.0%

Cash and Investments by Fund

Fund	Amount at 03/31/15
General Fund	\$8,210,577
Major Road	319,872
Local Road	3,750,920
Downtown Development Authority	(19,217)
Drug Forfeiture	114,662
Community Development Block Grant	(7,974)
Special Assessment	1,263,197
Fire Station Bond	399,388
Water and Sewer	8,407,967
Escrow	499,153
Total Cash and Investments	\$22,938,545

* Amounts of cash/investments by fund are prior to year end closing and subject to change with necessary month-end adjustments.