To: **Benjamin I. Myers, City Manager**

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

Date: **April 12, 2017**

RE: **Investment Report 3rd Quarter of Fiscal Year 2017**

A summary of the investments for the City of Madison Heights as of March 31, 2017 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.

Investment Overview:

At the March 14-15, 2017 meeting of the Federal Open Market Committee (FOMC), the benchmark was raised on short-term interest rates by one-quarter of a percent, to a range of 0.75% to 1.0% (from the previous range of 0.50% to 0.75%). This marks the third time in 10-years that the rate was changed. Short-term rates have been held near zero from December 2008 to December 2015. The year-end 2015 increase was followed by a December 2016 increase, and then a March 2017 increase that became the third of what is expected to be a series of hikes in an effort to achieve "rate normalization". The Federal Reserve has signaled the likelihood of additional rate hikes in 2017, and has given guidance that future moves would be gradual and data dependent. Given the rate hike was generally expected and appeared to be already factored in, yields were relatively unchanged at the end of this quarter.

Locally we continue to diversify investments and balance maturity dates with cash flow needs. 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.

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 on the following page details the amounts at March 31, 2017. 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)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	3/31/2017 Annual Yield to Maturity	3/31/2016 Annual Yield to Maturity
Fixed Income Assets									
Government Bonds	1,992,000	$ 2,020,548	$ 1,998,418	$ (22,130)	$ 4,951	$ 29,618	9.0%	1.48%	1.46%
Securities	4,537,082	5,521,190	5,391,791	(129,399)	11,795	139,863	24.3%	4.08%	3.12%
Municipal Bonds	2,535,000	2,600,696	2,546,212	(54,484)	13,276	37,757	11.5%	2.16%	3.70%
Certificates of Deposit	1,000,000	1,000,000	1,000,000	-	4,260	28,492	4.5%	1.63%	45.00%
Local Government Investment Pool/Money Market	11,274,745	11,274,745	11,274,745	-	17,875	94,707	50.8%	0.99%	1.44%
Total Investments			$22,211,166				100.0%		

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.

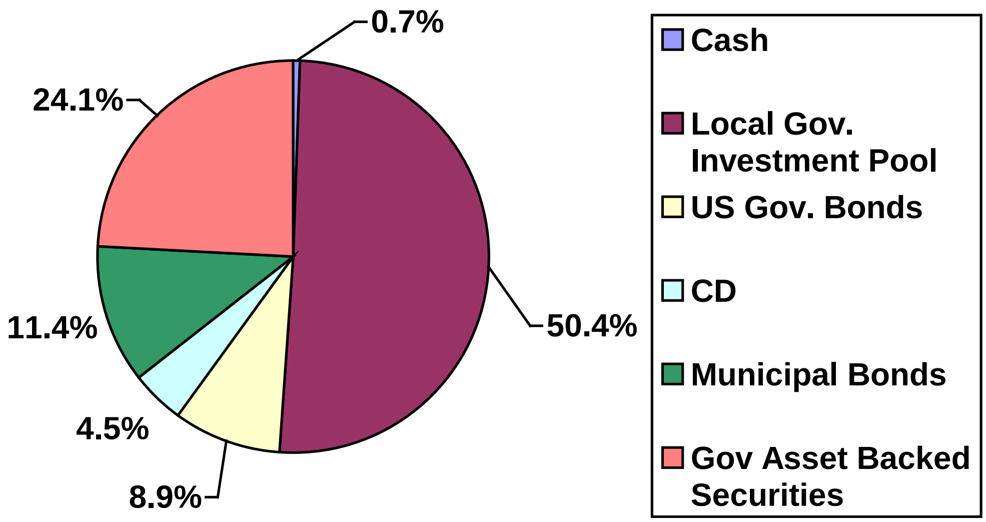
Quarter Investments:

As of March 31, 2017, 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	$ 3,562,171
Total amount in Investments	22,211,166
	$25,773,337

The chart on the following page details the diversification of the City investments as of March 31, 2017.

Diversification – Third Quarter of Fiscal Year 2017
Last Day of the Quarter



Cash and Investments by Fund

Fund	Amount at 03/31/17	Amount at 03/31/16
General Fund	$10,759,612	$11,839,366
Major Road	(143,638)	(347,183)
Local Road	2,696,861	2,799,512
Downtown Development Authority	29,538	46,808
Drug Forfeiture	82,882	114,401
Community Development Block Grant	(17,543)	(12,740)
Special Assessment	977,188	1,239,140
Fire Station Bond	408,096	420,513
Water and Sewer	10,804,186	9,404,169
Escrow	176,155	209,167
Total Cash and Investments	**$25,773,336**	**$25,713,153**

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