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

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

Date: **July 14, 2016**

RE: **Investment Report 4th Quarter of Fiscal Year 2016**

A summary of the investments for the City of Madison Heights as of June 30, 2016 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.

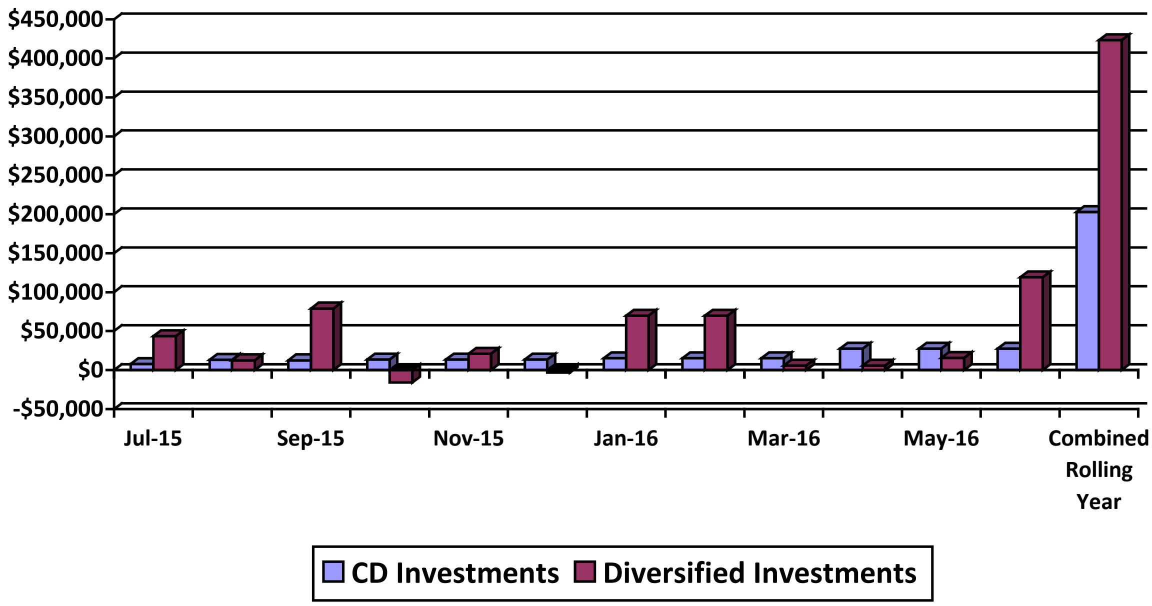
Investment Overview:

On June 15, 2016 the Federal Open Market Committee (FOMC) released a statement indicating that the pace of improvement in the labor market has slowed while growth in the economic activity appears to have picked up since the FOMC meeting in April. Although the unemployment rate has declined, job gains have diminished. Growth in household spending has strengthened. Since the beginning of the year, the housing sector has continued to improve and the drag from net exports appears to have lessened, but business fixed investment has been soft. Inflation has continued to run below the Committee's 2 percent longer-run objective, partly reflecting earlier declines in energy prices and in prices on non-energy imports. Market-based measures of inflation compensation declined; most survey-based measurers of longer-term inflation expectations are little changed, on balance, in recent month. Against this backdrop, the Committee decided to maintain the target range for the federal funds rate of ¼ to ½ percent. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation. The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

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. I have included a chart on the next page that compares our current returns with what our returns would be if we were invested 100% in Certificates of Deposit at the average rate of rate of 0.95% for 12 month investment during the July - June period (the current rate of a 12-month CD is 1.50%). Investing completely in CDs for the fiscal year to date would have yielded approximately $202,950 in investment earnings; instead we earned $440,224 through June by following our diversified investment plan.

The chart on the next pages shows the differential between investments 100% in certificates of deposit vs. the City's diversified investment strategy:

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.

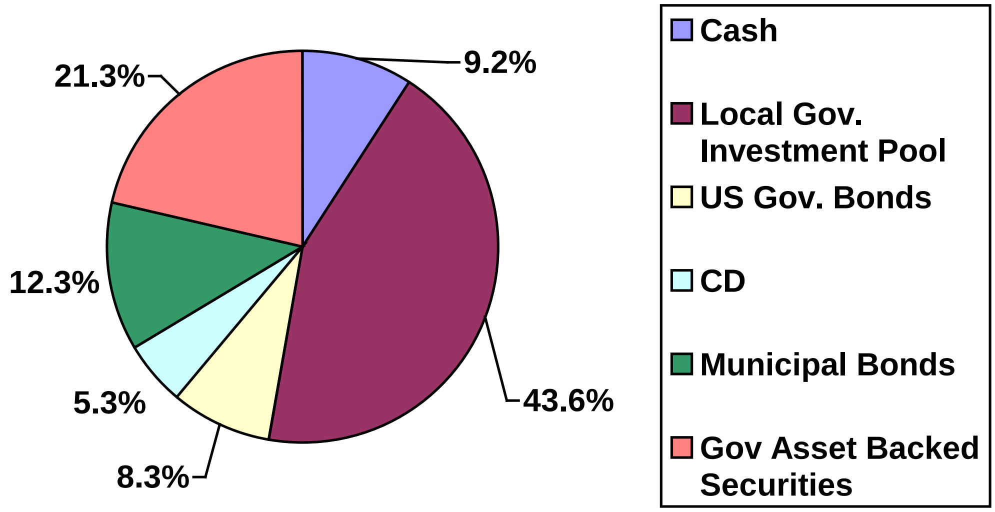
Quarter Investments:

As of June 30, 2016, 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	$ 2,143,527
Total amount in Investments	21,255,288
	$23,398,815

The chart on the following page details the diversification of the City investments as of June 30, 2016.

Diversification – Fourth Quarter of Fiscal Year 2016
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 June 30, 2016. 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	6/30/2016 Annual Yield to Maturity	6/30/2015 Annual Yield to Maturity
Fixed Income Assets									
Government Bonds	$1,948,000	$ 1,949,877	$ 1,977,237	$ 27,360	$ 5,579	$ 244,434	8.3%	1.24%	1.95%
Securities	5,000,684	4,973,324	4,947,621	(25,703)	10,634	129,277	21.3%	3.68%	3.64%
Municipal Bonds	2,869,243	2,851,792	2,869,243	17,451	4,943	59,317	12.3%	2.08%	2.20%
Certificates of Deposit	1,248,243	1,248,243	1,248,243	-	1,595	19,145	5.3%	1.54%	0.50%
Local Government Investment Pool/Money Market	10,212,944	10,212,944	10,212,944	-	23,968	117,739	43.6%	1.21%	1.15%
Total Investments			$21,255,288				100.0%		

Cash and Investments by Fund

Fund	Amount at 06/30/15	Amount at 06/30/16
General Fund	$7,200,506	$8,708,598
Major Road	515,886	52,937
Local Road	3,389,337	2,335,629
Downtown Development Authority	(11,657)	41,917
Drug Forfeiture	116,924	113,876
Community Development Block Grant	(9,027)	(16,989)
Special Assessment	1,279,127	1,291,677
Fire Station Bond	77,142	50,256
Water and Sewer	9,437,302	10,445,903
Escrow	299,197	375,011
Total Cash and Investments	**$22,371,656**	**$23,398,815**

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