

To: Benjamin I. Myers, City Manager

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

Date: July 12, 2017

RE: Investment Report 4th Quarter of Fiscal Year 2017

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

In June, the Federal Reserve increased the benchmark federal fund rate by one-quarter percentage point to a range between 1.00% and 1.25%. This was the fourth increase since December 2015. Expectations are for additional rate increases this year and next as the Federal Reserve long-term plan is to normalize rates, after being held down to near zero from the end of 2008 through most of 2015. Economists anticipate continued low inflation which leads to lower long-term yields. The rise in short-term rates and the decline in long-term rates have resulted in a flat yield curve.

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 June 30, 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 | 6/30/2017 Annual Yield to Maturity | 6/30/2016 Annual Yield to Maturity |
|--|-----------|---------------|--------------|------------------------|------------------|-------------------------|----------------------|------------------------------------|------------------------------------|
| Fixed Income Assets | | | | | | | | | |
| Government Bonds | 1,913,000 | \$ 1,960,893 | \$ 1,956,127 | \$ (4,766) | \$ 6,188 | \$ 35,889 | 10.4% | 1.83% | 1.95% |
| Securities | 3,676,501 | 3,714,501 | 3,608,080 | (106,421) | 11,243 | 136,132 | 19.1% | 4.06% | 3.64% |
| Municipal Bonds | 2,535,000 | 2,600,696 | 2,544,734 | (55,962) | 8,593 | 34,804 | 13.5% | 1.05% | 2.20% |
| Certificates of Deposit | 2,718,089 | 2,718,089 | 2,706,423 | (11,666) | 11,996 | 28,492 | 14.3% | 1.64% | 0.50% |
| Local Government Investment Pool/Money Market | | | | | | | | | |
| | 8,061,189 | 8,061,189 | 8,061,189 | - | 17,875 | 132,116 | 42.7% | 0.92% | 1.15% |
| Total Investments | | | \$18,876,553 | | | | 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.

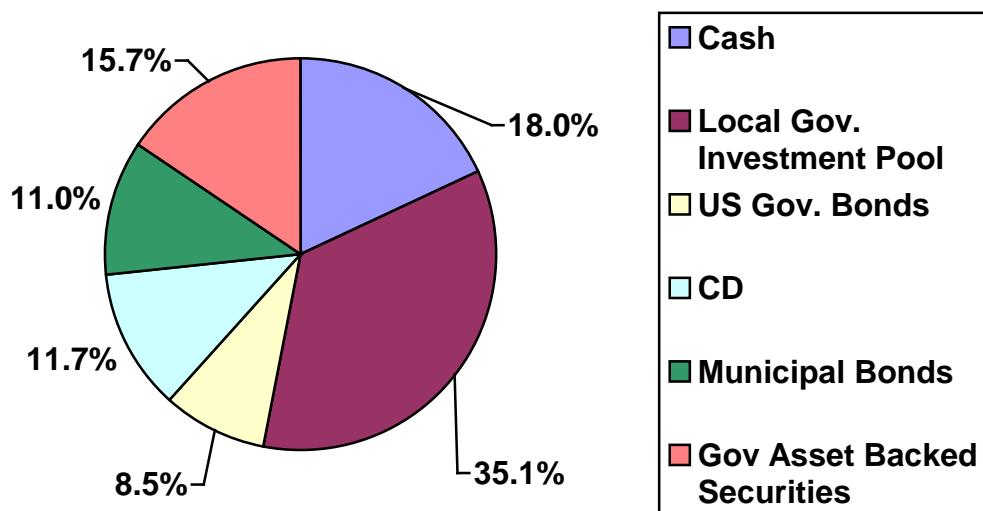
Quarter Investments:

As of June 30, 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 | \$ 4,163,680 |
| Total amount in Investments | <u>18,876,553</u> |
| | \$23,040,233 |

The chart on the following page details the diversification of the City investments as of June 30, 2017.

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



Cash and Investments by Fund

| Fund | Amount at 06/30/17 | Amount at 06/30/16 |
|-----------------------------------|---------------------|---------------------|
| General Fund | \$8,724,611 | \$8,708,598 |
| Major Road | 102,112 | 52,937 |
| Local Road | 2,634,870 | 2,335,629 |
| Downtown Development Authority | 34,249 | 41,917 |
| Drug Forfeiture | 83,242 | 113,876 |
| Community Development Block Grant | (37,640) | (16,989) |
| Special Assessment | 1,004,165 | 1,291,677 |
| Fire Station Bond | 16,069 | 50,256 |
| Water and Sewer | 10,329,388 | 10,445,903 |
| Escrow | 149,167 | 375,011 |
| Total Cash and Investments | \$23,040,233 | \$23,398,815 |

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