

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

**From: Melissa R. Marsh, Deputy City Manager**

**Date: October 19, 2017**

**RE: Investment Report for the 1st Quarter of Fiscal Year 2018**

A summary of the investments for the City of Madison Heights as of September 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 September, the Federal Reserve (Fed) left interest rates unchanged but confirmed that it will begin to slowly and predictably reduce the size of its balance sheet. In 2008 the Fed began buying debt in order to stabilize financial markets. Starting in October of this year, the Fed plans to limit its reinvestment of maturing Treasury bonds and mortgaged backed securities, resulting in a declining balance sheet. The Fed also indicated that it expects to increase the overnight bank borrowing rate one more time this year and three times in 2018.

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 September 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	9/30/2017 Annual Yield to Maturity	9/30/2016 Annual Yield to Maturity
<b>Fixed Income Assets</b>									
Government Bonds	3,747,089	\$ 3,861,413	\$ 3,840,896	\$ (20,517)	\$ 10,123	\$ 38,745	12.4%	1.83%	1.18%
Securities	3,106,464	3,450,683	3,334,092	(116,591)	11,122	134,573	10.8%	4.04%	3.80%
Municipal Bonds	2,535,000	2,600,696	2,548,276	(52,419)	18,003	96,016	8.2%	2.72%	1.90%
Certificates of Deposit	1,000,000	1,000,000	1,000,000	-	5,467	16,300	3.2%	1.57%	1.57%
<b>Local Government Investment Pool/Money Market</b>	20,194,041	20,194,041	20,194,041	-	17,875	183,708	65.3%	1.66%	1.21%
<b>Total Investments</b>			\$ 30,917,304				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.

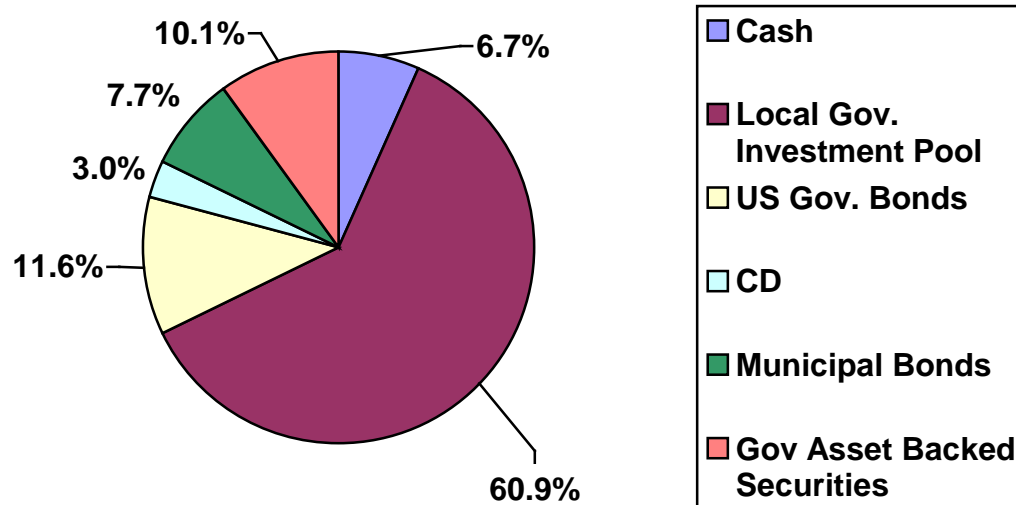
#### **Quarter Investments:**

As of September 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	\$ 2,225,530
Total amount in Investments	<u>30,917,304</u>
	\$33,142,834

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

**Diversification – First Quarter of Fiscal Year 2018  
Last Day of the Quarter**



**Cash and Investments by Fund**

<b>Fund</b>	<b>Amount at 06/30/17</b>	<b>Amount at 06/30/18</b>
General Fund	\$8,724,611	\$18,009,671
Major Road	102,112	(530,785)
Local Road	2,634,870	2,668,147
Downtown Development Authority	34,249	51,566
Drug Forfeiture	83,242	81,884
Community Development Block Grant	(37,640)	(5,398)
Special Assessment	1,004,165	1,096,749
Fire Station Bond	16,069	394,993
Water and Sewer	10,329,388	10,368,412
Chapter 20 Drain Debt Service	0.0	832,967
Escrow	149,167	174,628
<b>Total Cash and Investments</b>	<b>\$23,040,233</b>	<b>\$33,142,834</b>

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