

To: Benjamin I. Myers, City Manager

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

Date: April 12, 2018

RE: Investment Report 3rd Quarter of Fiscal Year 2018

A summary of the investments for the City of Madison Heights as of March 31, 2018 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 20-21, 2018 meeting of the Federal Open Market Committee (FOMC) Federal Reserve officials saw an economy growing at a strong pace and inflation moving up as well, justifying continued interest rate increases. The FOMC unanimously voted to approve a quarter-point rate hike, bringing the target range to 1.5 percent to 1.75 percent. There were some misgivings, mostly from "a couple" members who thought it would be better to wait for more evidence that inflation was progressing toward the Fed's 2 percent goal. "With regard to the medium-term outlook for monetary policy, all participants saw some further firming of the stance of monetary policy as likely to be warranted," the summary said. "Almost all participants agreed that it remained appropriate to follow a gradual approach to raising the target range for the federal funds rate. "Markets expect the Fed to hike rates again in June and likely in September, though a fourth 2018 increase has just about a 1 in 4 chance, according to fed funds futures 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.

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, 2018. 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	3/31/2018 Annual Yield to Maturity	3/31/2017 Annual Yield to Maturity
Fixed Income Assets									
Government Bonds/Asset Backed/CMO	2,955,781	\$ 2,951,245	\$ 2,910,843	\$ (40,403)	\$ 14,145	\$ 53,783	14.1%	1.85%	1.48%
Securities	4,997,964	4,311,974	4,172,175	(139,799)	8,456	106,215	20.2%	4.30%	4.08%
Municipal Bonds	2,535,000	2,600,696	2,527,460	(73,236)	17,988	71,951	12.3%	2.15%	2.16%
Certificates of Deposit	1,000,000	1,000,000	1,000,000	-	3,645	14,578	4.9%	1.41%	1.63%
Local Government Investment Pool/Money Market									
Pool/Money Market	993,506	9,993,506	9,993,506	0	31,462	133,754	48.5%	1.17%	0.99%
Total Investments			\$ 20,603,984				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.

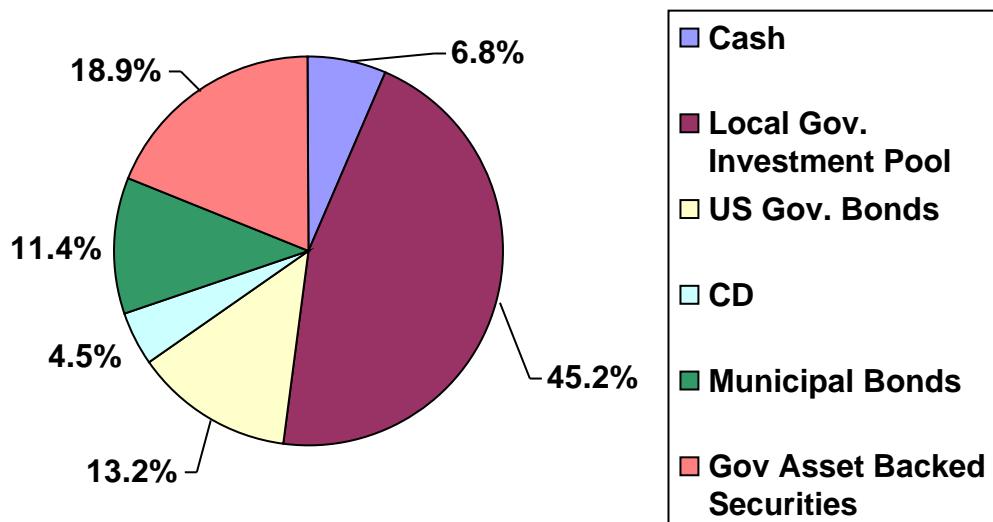
Quarter Investments:

As of March 31, 2018, 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	\$ 1,504,296
Total amount in Investments	<u>20,603,984</u>
	\$22,108,280

The chart on the following page details the diversification of the City investments as of March 31, 2018.

Diversification – Third Quarter of Fiscal Year 2018 Last Day of the Quarter



Cash and Investments by Fund

Fund	Amount at 03/31/18	Amount at 03/31/17
General Fund	\$9,794,904	\$10,759,612
Major Road	(314,368)	(143,638)
Local Road	2,799,053	2,696,861
Downtown Development Authority	63,931	29,538
Drug Forfeiture	135,277	82,882
Community Development Block Grant	(9,202)	(17,543)
Special Assessment	830,313	977,188
Fire Station Bond	418,055	408,096
Water and Sewer	8,233,818	10,804,186
Escrow	164,117	176,155
Chapter 20 Drain Debt Service	(7,618)	0
Total Cash and Investments	\$22,108,280	\$25,773,336

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