

**To: Mayor and City Council**

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

**Date: July 16, 2018**

**RE: Investment Report 4th Quarter of Fiscal Year 2018**

A summary of the investments for the City of Madison Heights as of June 30, 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 June 13, 2018 meeting of the Federal Open Market Committee (FOMC) Federal Reserve officials decided to raise the target range for the federal funds rate to 1-3/4 to 2 percent. The stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2 percent inflation. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures, inflation expectations, and readings on financial and international developments.

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, 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	6/30/2018 Annual Yield to Maturity	6/30/2017 Annual Yield to Maturity
<b>Fixed Income Assets</b>									
Government Bonds	4,068,000	\$ 4,176,232	\$ 4,116,471	\$ (59,762)	\$ 48,109	\$ 122,697	22.5%	1.86%	1.83%
Government Asset Backed/CMO Securities	6,828,170	4,169,284	4,046,703	(122,580)	100,286.31	218,393	22.1%	4.27%	4.06%
Municipal Bonds	1,380,000	1,415,019	1,365,276	(49,743)	35,550	28,534	7.5%	2.09%	1.05%
Certificates of Deposit	1,248,000	1,248,000	1,245,460	(2,540)	34,228	20,426	6.8%	1.64%	1.64%
<b>Local Government Investment Pool/Money Market</b>									
	7,530,570	7,530,570	7,530,570	-	31,462	149,490	41.1%	2.03%	0.92%
				\$ 18,304,480					
<b>Cash and Equivalents</b>									
				2,343,284					
				\$ 20,647,764					

### **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.

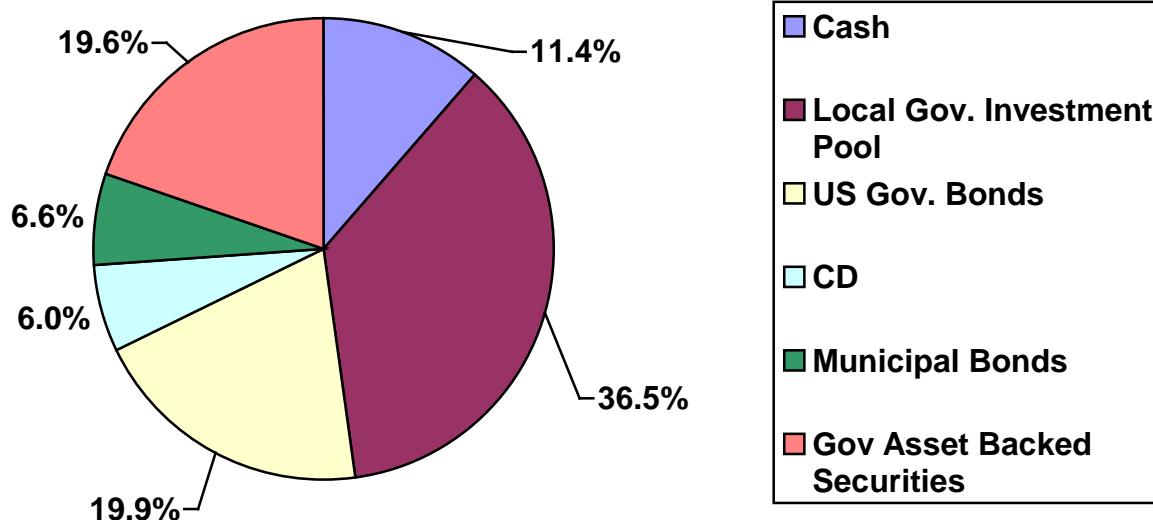
### **Quarter Investments:**

As of June 30, 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	\$ 1,912,055
Total amount in the investment accounts	<u>18,735,709</u>
	\$20,647,764

The chart on the following page details the diversification of the City investments as of June 30, 2018.

## Diversification – Fourth Quarter of Fiscal Year 2018 Last Day of the Quarter



### Cash and Investments by Fund

Fund	Amount at 06/30/18	Amount at 06/30/17
General Fund	\$7,582,998	\$8,724,611
Major Road	61,528	102,112
Local Road	2,876,701	2,634,870
Downtown Development Authority	66,367	34,249
Drug Forfeiture	283,902	83,242
Community Development Block Grant	(62,820)	(37,640)
Special Assessment	852,263	1,004,165
Fire Station Bond	14,496	16,069
Water and Sewer	8,646,838	10,329,388
Escrow	333,235	149,167
Chapter 20 Drain Debt Service	(7,742)	0
<b>Total Cash and Investments</b>	<b>\$20,647,764</b>	<b>\$23,040,233</b>

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