

To: Mayor and City Council

From: Melissa R. Marsh, Acting City Manager

Date: October 19, 2018

RE: Investment Report 1st Quarter of Fiscal Year 2019

A summary of the investments for the City of Madison Heights as of September 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 September 26, 2018 meeting of the Federal Open Market Committee (FOMC) Federal Reserve officials decided to raise the target range for the federal funds rate by $\frac{1}{4}$ percentage point, bringing it from 2 to $2 \frac{1}{4}$ percent. This action reflects the strength we see in the economy and is one more step in the process that we began almost three years ago of gradually returning interest rates to more normal levels. The Committee noted that looking ahead, today's projections show gradual interest rate increases continuing roughly as foreseen in June. The median of participants' views on appropriate policy through 2020 are unchanged since the June meeting.

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, 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	9/30/2018 Annual Yield to Maturity	9/30/2017 Annual Yield to Maturity
Fixed Income Assets									
Government Bonds	2,465,000	\$ 2,559,512	\$ 2,512,205	\$ (47,307)	\$ 13,782	\$ 50,305	7.6%	2.00%	1.83%
Government Asset Backed/CMO Securities	4,892,880	4,456,393	4,318,211	(138,182)	14,473.98	137,665	13.0%	4.34%	4.04%
Municipal Bonds	1,380,000	1,415,019	1,359,265	(55,754)	35,394	28,409	4.1%	2.64%	2.72%
Certificates of Deposit	1,248,000	1,248,000	1,246,380	(1,620)	34,253	20,441	3.8%	1.64%	1.57%
Local Government Investment Pool/Money Market									
	20,331,350	20,331,350	20,331,350	-	31,462	230,348	61.4%	2.08%	1.66%
				\$ 29,767,411					
Cash and Equivalents									
				3,359,778				10.14%	
				\$ 33,127,189					

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.

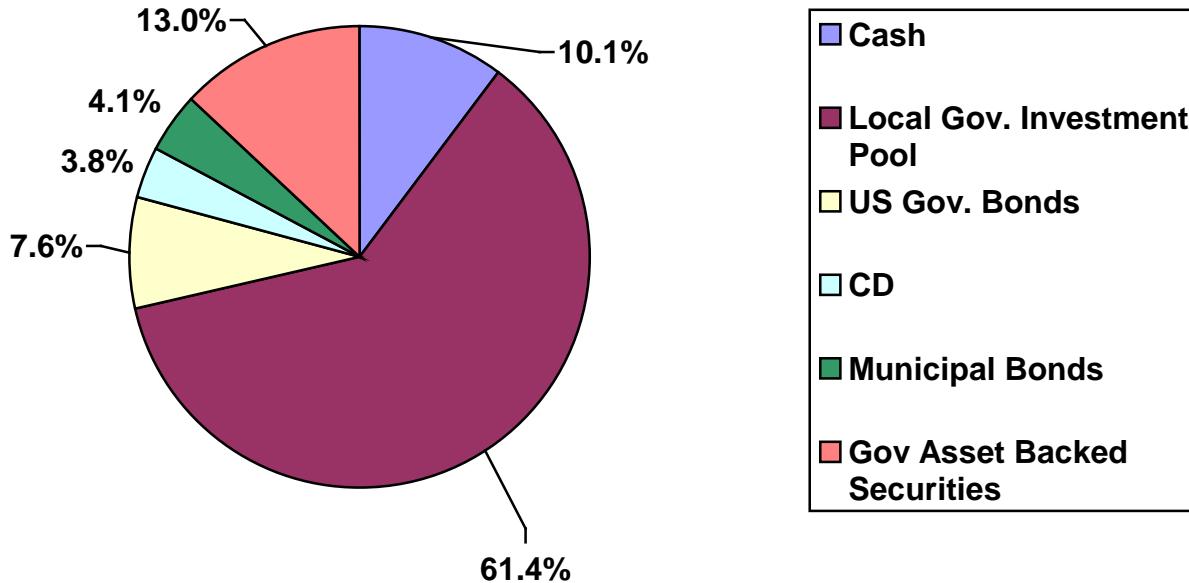
Quarter Investments:

As of September 30, 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	\$ 3,359,778
Total amount in the investment accounts	<u>29,767,411</u>
	\$33,127,189

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

Diversification – First Quarter of Fiscal Year 2019
Last Day of the Quarter



Cash and Investments by Fund

Fund	Amount at 09/30/18	Amount at 09/30/17
General Fund	\$19,235,894	\$18,009,671
Major Road	371,307	(530,785)
Local Road	3,370,912	2,668,147
Downtown Development Authority	90,644	51,566
Drug Forfeiture	283,911	81,884
Community Development Block Grant	(66,544)	(5,398)
Special Assessment	895,984	1,096,749
Fire Station Bond	390,664	394,933
Water and Sewer	7,474,691	10,368,412
Escrow	299,796	174,628
Chapter 20 Drain Debt Service	779,928	832,967
Total Cash and Investments	\$33,127,187	\$33,142,834

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