



CITY OF MADISON HEIGHTS
300 WEST 13 MILE ROAD, MADISON HEIGHTS, MI 48071

FINANCE/TREASURER DEPARTMENT

Linda A. Kunath,
Finance Director/Treasurer

(248) 837-2639
LindaKunath@Madison-Heights.org

MEMORANDUM

DATE: April 18, 2019
TO: Mayor and City Council
Melissa Marsh, City Manager
FROM: Linda A. Kunath, Finance Director/Treasurer
SUBJECT: Investment Report 3rd Quarter Fiscal Year 2019

In compliance with the City of Madison Heights Investment Policy and P.A. 20 of 1945, as amended, the following summary of investments as of March 31, 2019, for the City of Madison Heights, is being presented in this memorandum.

Investment Overview

During calendar 2018, financial markets experienced large swings, with market highs followed by market corrections resulting market lows.. On December 19, 2018, the Federal Open Market Committee (FOMC) Federal Reserve officials raised the target range for the federal funds rate by ¼ percentage point to 2 ½ percent. The Federal Reserve signaled it would raise rates to 3 percent in 2019. However, during the first quarter of 2019, amid an uncertain economy with the financial markets continuing to experience a great deal of volatility and low inflation, the FOMC decided not to raise rates and left at 2 ½ percent. The U.S. market valuations still remain stronger than international markets and are projected to continue in this manner the remainder of 2019. Long term bond rates are rising, which is an indicator of a slowing economy, projected to likely be late 2019 to first quarter of 2020. Many financial forecasts do not anticipate further rate increases in 2019, but the possibility of a rate decrease by the end of the calendar year.

The City of Madison Heights investments continue to be diversified and maturity dates are balanced with cash flow needs. Following a long term view for fixed rate investments, a higher rate of return is realized by holding fixed rate vehicles, such as bonds and treasuries, until either the call date or maturity. As Melissa Marsh has stated 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, 2019. 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.



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City of Madison Heights		<u>Investment Listing, by Security Type</u>							
Investment Analysis									
Qtr End: 3/31/2019									
Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	3/31/2019 Annual Yield to Maturity	3/31/2018 Annual Yield to Maturity
Fixed Income Assets									
Government Bonds	\$ 2,536,910	\$ 2,525,294	\$ 2,534,152	\$ 8,858	\$ 12,223	\$ 65,598	10.5%	2.59%	1.85%
Government Asset Backed/CMO Securities	5,226,291	4,631,421	4,590,678	(40,743)	41,772	127,055	19.0%	3.03%	4.30%
Municipal Bonds	1,155,000	1,185,054	1,159,930	(25,124)	45,411	30,274	4.8%	2.61%	2.15%
Certificates of Deposit	1,749,599	1,749,599	1,752,271	2,672	62,504	42,119	7.2%	2.46%	1.41%
Local Government Investment Pool/Money Market									
	9,762,070	9,762,070	9,762,070	-	34,795	229,000	40.4%	2.40%	1.17%
Total Investments			\$19,799,101						
Cash and Equivalents			4,391,928				18.2%		
Total Cash and Investments			\$24,191,029						

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, 2019, 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	\$ 4,391,928
Total amount in the investment accounts	<u>19,799,101</u>
	\$24,191,029

The following chart details the diversification of City investments as of March 31, 2019.



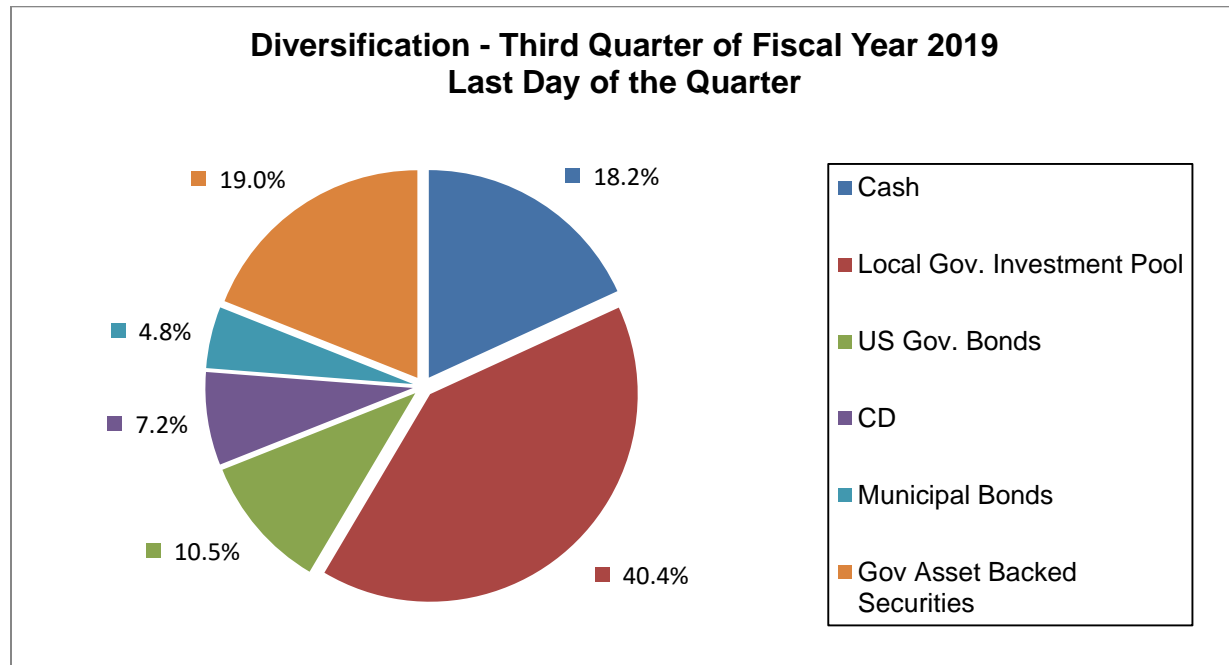
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Cash and Investment by Fund

Fund	Amount at 03/31/2019	Amount at 03/31/2018
General Fund	\$11,954,472	\$10,759,612
Major Road	603,247	(143,638)
Local Road	2,459,895	2,696,861
Parks Maintenance (cash only)	23,951	0
Downtown Development Authority	108,314	29,538
Drug Forfeiture	183,142	82,882
Community Development Block Grant	(6,296)	(17,543)
Special Assessment	623,513	977,188
Fire Station Bond	407,923	408,096
Water and Sewer	7,658,070	10,804,186
Escrow	174,799	176,155
Total Cash and Investments	\$24,191,029	\$25,773,337

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