



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
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MEMORANDUM

DATE: July 22, 2019
TO: Mayor and City Council
Melissa Marsh, City Manager
FROM: Linda A. Kunath, Finance Director/Treasurer
SUBJECT: Investment Report 4th 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 June 30, 2019, for the City of Madison Heights, is being presented in this memorandum.

Investment Overview

A Federal Reserve rate cut is deemed likely in July as a result of the U.S. Treasury yields collapse in June, due to mounting global concerns. The already stressed global economy is responding to escalating threats of tariffs on U.S. trading partners, expectations of plummeting inflation, aging demographics, and weakening productivity. Market indicators project the U.S. economy will enter a recession within the next 12 months. The Federal Open Market Committee (FOMC) Federal Reserve officials are expected to cut the federal funds rate next month. The central bank is said to want to counteract the slowdown in manufacturing caused by the trade war. GDP growth is expected to be around 1.8% next year, a reduction from the 2.5% high this year. Long term bond rates are expected to stay around 2%.

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 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 June 30, 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: 6/30/2019							
Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	Annual Yield to Maturity	Annual Yield to Maturity
Fixed Income Assets									
Government Bonds	\$ 2,724,997	\$ 2,718,103	\$ 2,763,985	\$ 45,882	\$ 22,847	\$ 64,261	12.4%	2.32%	1.86%
Government Asset Backed/CMO Securities	6,577,629	6,045,067	6,059,632	14,565	79,791	121,918	27.1%	3.16%	4.27%
Municipal Bonds	920,000	946,632	942,759	(3,873)	40,904	27,269	4.2%	2.89%	2.09%
Certificates of Deposit	1,751,234	1,751,234	1,755,727	4,493	68,737	45,456	7.9%	2.54%	1.64%
Local Government Investment Pool/Money Market	6,495,600	6,495,600	6,495,600	-	34,795	229,894	29.1%	2.39%	2.03%
Total Investments			\$18,017,703						
Cash and Equivalents			4,325,649				19.4%		
Total Cash and Investments			\$22,343,352						

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, 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	\$ 4,325,649
Total amount in the investment accounts	<u>18,017,703</u>
	\$22,343,352

The following chart details the diversification of City investments as of June 30, 2019.



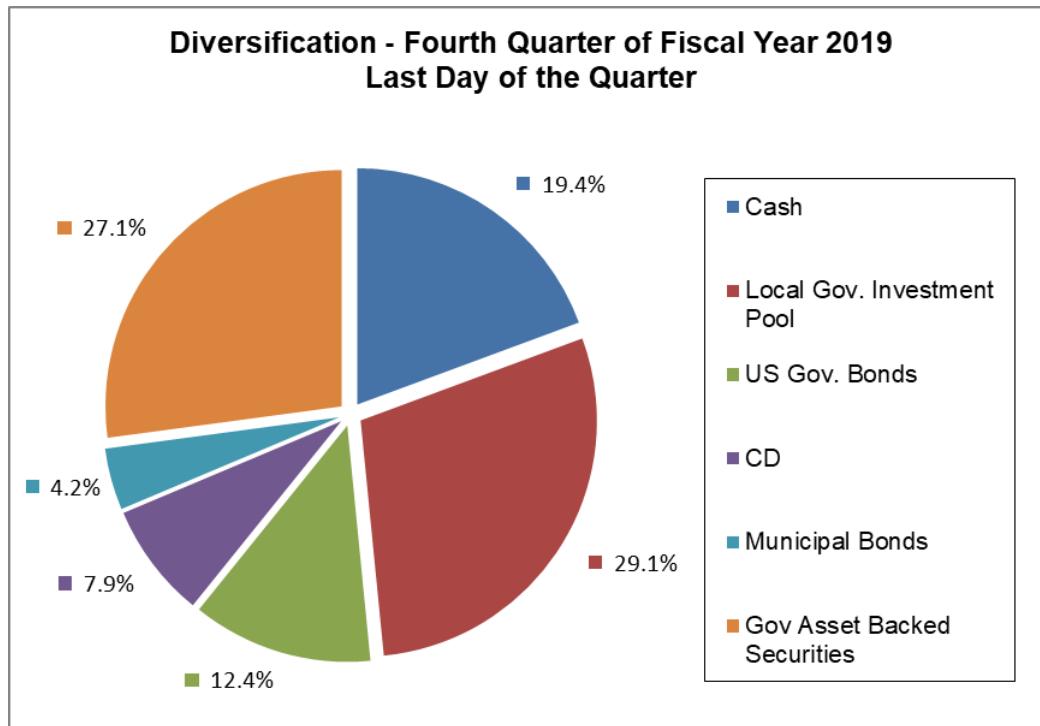
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Cash and Investment by Fund

Fund	Amount at 06/30/2019	Amount at 06/30/2018
General Fund	\$9,553,291	\$7,582,998
Major Road	\$901,409	61,528
Local Road	\$2,459,757	2,876,701
Parks Maintenance (cash only)	\$21,624	0
Downtown Development Authority	\$124,760	66,367
Drug Forfeiture	\$232,891	283,902
Community Development Block Grant	(\$17,661)	(62,820)
Special Assessment	\$639,204	852,263
Fire Station Bond	\$9,585	14,496
Water and Sewer	\$8,278,499	8,646,838
Escrow	\$139,994	333,235
Total Cash and Investments	\$22,343,352	\$20,655,508

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