



**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**

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**DATE:** October 30, 2019  
**TO:** Mayor and City Council  
Melissa Marsh, City Manager  
**FROM:** Linda A. Kunath, Finance Director/Treasurer  
**SUBJECT:** Investment Report 1<sup>st</sup> Quarter Fiscal Year 2020

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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 September 30, 2019, for the City of Madison Heights, is being presented in this memorandum.

**Investment Overview**

The Federal Reserve rate cuts in July, September, and October modified the target range to be 1.5% to 1.75%. The rate reductions are said to be a precautionary move by the Federal Reserve to head off any threats to the U.S. economy and preclude the need for aggressive rate cuts in the future. The ongoing trade war with China has placed undefined pressure on the global economy, deeming the unpredictable outcome of trade negotiations as a material risk. The Fed rate cuts support the continued growth of the U.S. economy. Michigan Class investment newsletter states the October 30, 2019 reduction of 25 basis points is another “insurance cut” to aide the long-term health of the U.S. economy.

The State Tax Commission has set the inflation rate multiplier at 1.9% for use in the 2020 capped value formula and “Headlee” millage reduction fraction (MRF) formula. This is a .5% reduction from this current year’s 2.4% inflation rate multiplier. The economy is said to be cooling, but the probability of a U.S. recession within 12 months is only 27%, according to Bloomberg Economics model. This is higher odds than a year ago, but less than predicted a few months ago. Leading indicators include the spread between 3-month and 10-year Treasury securities, the yield curve, wage growth, and unemployment. The predicted range of yield on the 10-year Treasury note is 1.75%-2.25%.

The City of Madison Heights’s 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 September 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.

City of Madison Heights Investment Analysis		Investment Listing, by Security Type										
		Qtr End: 9/30/2019										
Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	9/30/2019 Annual Yield to Maturity	9/30/2018 Annual Yield to Maturity			
<b>Fixed Income Assets</b>												
Government Bonds	\$ 2,821,583	\$ 2,813,782	\$ 2,861,143	\$ 47,361	\$ 13,895	\$ 62,050	7.9%	2.17%	2.00%			
Government Asset Backed/CMO Securities	6,184,483	5,529,837	5,572,244	42,407	85,582	120,748	15.3%	3.15%	4.34%			
Municipal Bonds	920,000	946,632	945,194	(1,438)	38,422	25,615	2.6%	2.71%	2.64%			
Certificates of Deposit	1,752,731	1,752,731	1,761,208	8,477	59,811	39,519	4.8%	2.20%	1.64%			
<b>Local Government Investment Pool/Money Market</b>	<b>19,282,561</b>	<b>19,282,561</b>	<b>19,282,561</b>	<b>-</b>	<b>34,795</b>	<b>291,198</b>	<b>53.0%</b>	<b>2.39%</b>	<b>2.08%</b>			
<b>Total Investments</b>			<b>\$30,422,350</b>									
<b>Cash and Equivalents</b>			<b>5,962,918</b>					<b>16.4%</b>				
<b>Total Cash and Investments</b>			<b>\$36,385,268</b>									

### 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).

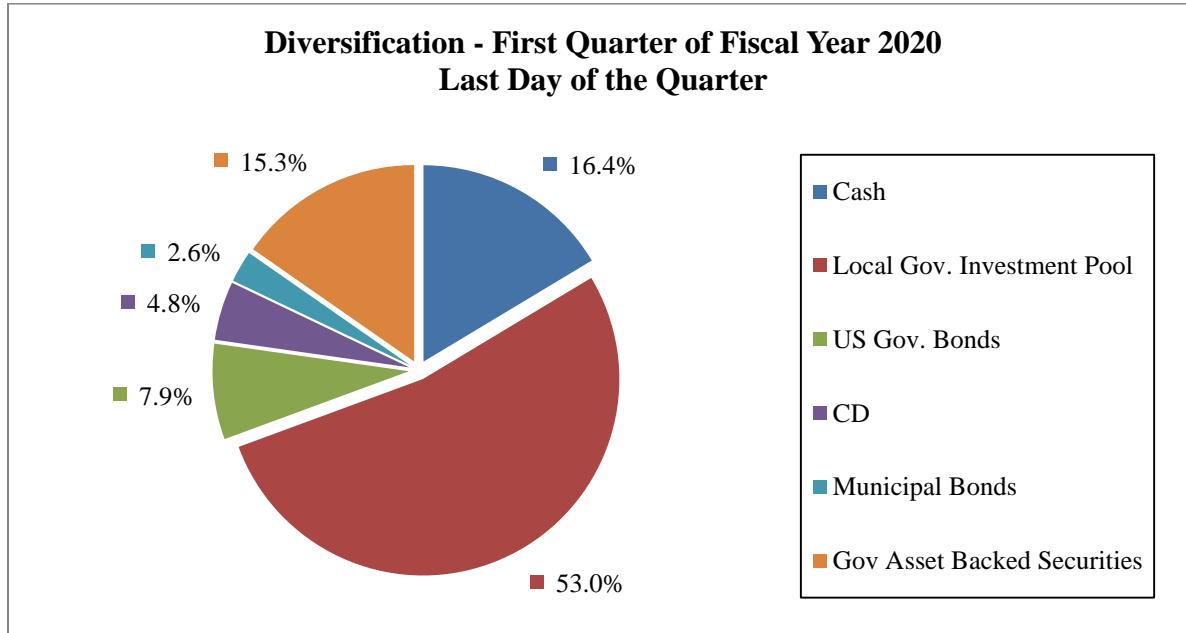
Concentration of risk occurs when the municipality is heavily invested in one issuer. The city's largest issuer is the Local Government Investment Pool managed by Oakland County. This pool is diversified with other County investments.

### Quarter Investments

As of September 30, 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	\$ 5,962,918
Total amount in the investment accounts	<u>30,422,350</u>
	\$36,385,268

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



### Cash and Investment by Fund

Fund	Amount at 09/30/2019	Amount at 09/30/2018
General Fund	\$22,665,466	\$19,525,306
Major Road	1,271,191	368,053
Local Road	3,141,960	3,337,469
Parks Maintenance (cash only)	12,286	(34,223)
Downtown Development Authority	152,074	90,644
Drug Forfeiture	214,880	283,966
Community Development Block Grant	(23,293)	(66,418)
Special Assessment	655,610	895,984
Fire Station Bond	390,208	390,664
Water and Sewer	7,505,668	7,627,370
Escrow	149,219	2,481
Chapter 20 Drain Debt Service	250,000	0
<b>Total Cash and Investments</b>	<b>\$36,385,268</b>	<b>\$32,421,296</b>

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