



CITY OF MADISON HEIGHTS
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FINANCE/TREASURER DEPARTMENT

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MEMORANDUM

DATE: January 22, 2019
TO: Mayor and City Council
Melissa Marsh, City Manager
FROM: Linda A. Kunath, Finance Director/Treasurer
SUBJECT: Investment Report 2nd Quarter Fiscal Year 2020

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 December 31, 2019, for the City of Madison Heights, is being presented in this memorandum.

Investment Overview

The Federal Reserve cut rates a total of 75 basis points in 2019, then at their year-end policy meeting in mid-December unanimously decided to leave the benchmark rate in the range of 1.5% to 1.75% and signaled they will leave the rates unchanged through the end of 2020. The 2019 rate reductions were to shield the economy from disruptive trade war with China that's reduced business investment, harmed exports and sent the manufacturing sector into contraction. Recent trade tension between the U.S. and China have de-escalated and Michigan Class investment newsletter states the U.S. economy continues to grow for an eleventh consecutive year and has a stable forecast with modest growth in the coming year.

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. According to Fortune Magazine, 58% of investors say a recession is likely in 2020. Leading economic indicators include the spread between 3-month and 10-year Treasury securities, the yield curve, wage growth, and unemployment. The 10-year Treasury note predicted range of yield is 1.75%-2.25%, as of 1/3/20 was 1.788%, which is down .02% from last month.

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 December 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.

City of Madison Heights Investment Analysis		Investment Listing, by Security Type								
		Qtr End: 12/31/2019								
Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	12/31/2019 Annual Yield to Maturity	12/31/2018 Annual Yield to Maturity	
Fixed Income Assets										
Government Bonds	\$ 2,917,778	\$ 2,909,042	\$ 2,914,540	\$ 5,498	\$ 16,713	\$ 56,443	9.6%	1.94%	2.22%	
Government Asset Backed/CMO Securities	5,643,240	4,858,417	4,885,247	26,830	85,145	115,383	16.1%	3.17%	2.74%	
Municipal Bonds	1,900,000	1,952,695	1,946,155	(6,540)	79,695	53,130	6.4%	2.73%	2.63%	
Certificates of Deposit	1,498,997	1,502,060	1,509,088	7,028	55,187	35,148	5.0%	2.13%	2.29%	
Local Government Investment Pool/Money Market	16,914,347	16,914,347	16,914,347	-	35,465	315,944	55.9%	1.68%	2.08%	
Total Investments			\$28,169,377							
Cash and Equivalents			2,096,805							
Total Cash and Investments			\$30,266,182							

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).

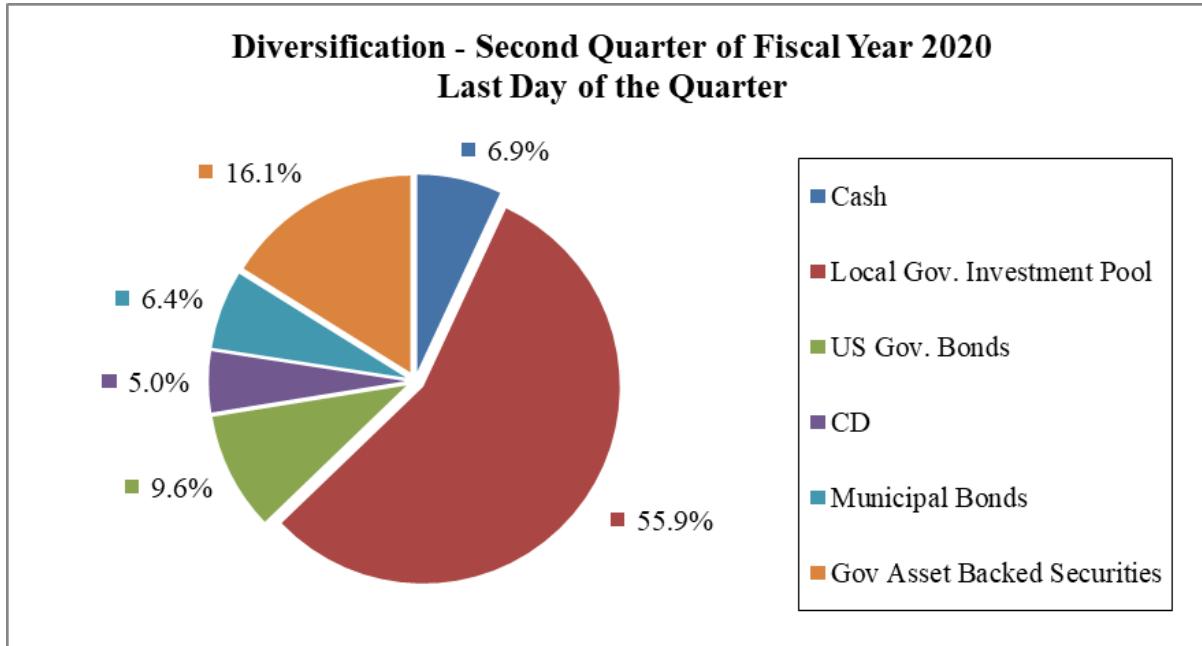
Concentration of risk occurs when the municipality is heavily invested in one issuer. The city's largest issuer is the Local Government Investment Pool managed by Oakland County. This pool is diversified with other County investments.

Quarter Investments

As of December 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	\$ 1,314,452
Total amount in the investment accounts	<u>28,951,730</u>
	\$30,266,181

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



<u>Cash and Investment by Fund</u>		
Fund	Amount at 12/31/2019	Amount at 12/31/2018
General Fund	\$18,017,550	\$16,149,931
Major Road	698,824	269,200
Local Road	2,446,560	2,438,244
Downtown Development Authority	166,773	108,952
Drug Forfeiture	285,353	188,236
Community Development Block Grant	(10,833)	(18,686)
Special Assessment	530,918	616,830
Fire Station Bond	411,914	405,343
Water and Sewer	7,678,042	7,418,480
Escrow	41,081	4,870
Chapter 20 Drain Debt Service	0	852,131
Total Cash and Investments	\$30,266,181	\$28,433,531

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