



CITY OF MADISON HEIGHTS
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FINANCE/TREASURER DEPARTMENT

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MEMORANDUM

DATE: April 28, 2020
TO: Mayor and City Council
Melissa Marsh, City Manager
FROM: Linda A. Kunath, Finance Director/Treasurer
SUBJECT: Investment Report 3rd 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 March 31, 2020, for the City of Madison Heights, is being presented in this memorandum.

Investment Overview

The global pandemic of COVID-19 (coronavirus), as designated by the World Health Organization, has set economic markets and the global economy in a tailspin. As of 3/31/2020 there were 745,000 people infected with COVID-19, in 177 countries, with 35,000 total dead. As of 04/26/2020, the Johns Hopkins coronavirus resource center website, posted the U.S. had 957,016 confirmed cases, 2,956,073 globally, and a total of 205,724 deaths. The Dow had its worst first quarter of all-time for January-March, 2020, with a loss of nearly 8,000 points from February to March. The market freefall was followed by numerous rebounds and falls through April, which are predicted to continue to roller-coaster for the foreseeable future.

The Federal Reserve has acted quickly to facilitate ample liquidity and continued flow of credit in the fixed-income markets. The target interest rate was cut to near zero and the Fed has agreed to purchase assets from high-grade commercial paper to junk bonds to expand its open market operations. According to Michigan Class April 2020 Economic Update publication, markets have positively responded to the Fed's actions, and Americans are eager to return to a sense of normalcy, but "reopening the economy remains contingent on containing the virus and exactly when that can be achieved is still anyone's best guess."

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 04/13/2020 Treasury yields for a 10-year note is .771%, which is down .19% 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 March 31, 2020. 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: 3/30/2020									
Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	3/30/2020 Annual Yield to Maturity	3/31/2019 Annual Yield to Maturity
Fixed Income Assets									
Government Bonds	\$ 2,840,867	\$ 2,830,651	\$ 2,998,136	\$ 167,485	\$ 11,182	\$ 57,514	11.1%	1.92%	2.59%
Government Asset Backed/CMO Securities	5,872,321	4,962,208	5,042,994	80,786	85,258	116,634	18.7%	3.09%	3.03%
Municipal Bonds	1,900,000	1,952,695	1,961,834	9,139	79,749	53,166	7.3%	2.71%	2.61%
Certificates of Deposit	1,500,095	1,503,157	1,516,830	13,673	55,106	34,702	5.6%	2.04%	2.46%
Local Government Investment Pool/Money Market	9,496,911	9,496,911	9,496,911	-	35,465	323,403	35.3%	2.30%	2.40%
Total Investments			\$21,016,705						
Cash and Equivalents			5,911,881						
Total Cash and Investments			\$26,928,586						

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.

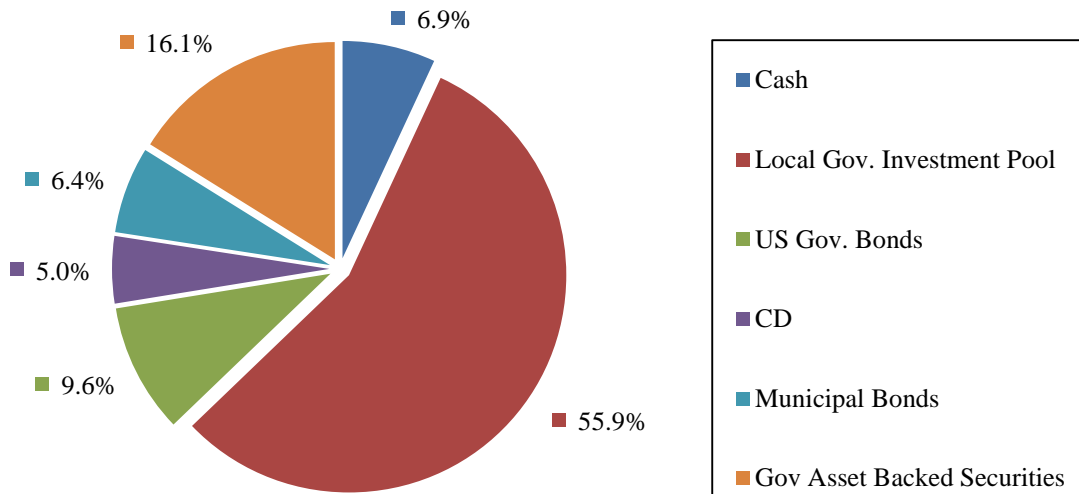
Quarter Investments

As of March 31, 2020, 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	\$ 5,911,881
Total amount in the investment accounts	<u>21,016,705</u>
	\$26,928,586

The following chart details the diversification of City investments as of March 31, 2020.

**Diversification - Third Quarter of Fiscal Year 2020
Last Day of the Quarter**



Cash and Investment by Fund

Fund	Amount at 03/31/2020	Amount at 03/31/2019
General Fund	\$14,389,814	\$11,954,472
Major Road	1,053,010	603,247
Local Road	2,551,097	2,459,895
Downtown Development Authority	167,629	108,314
Drug Forfeiture	353,860	183,142
Community Development Block Grant	(6,643)	(6,296)
Special Assessment	553,606	623,513
Fire Station Bond	287,350	407,923
Water and Sewer	7,573,212	7,658,070
Escrow	5,651	174,799
Total Cash and Investments	\$26,928,586	\$25,019,210

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