



CITY OF MADISON HEIGHTS
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FINANCE/TREASURER DEPARTMENT

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MEMORANDUM

DATE: July 20, 2020
TO: Mayor and City Council
Melissa Marsh, City Manager
FROM: Linda A. Kunath, Finance Director/Treasurer
SUBJECT: Investment Report 4th 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 June 30, 2020, for the City of Madison Heights, is being presented in this memorandum.

Investment Overview

The National Bureau of Economic Research (NBER) reported that the U.S. officially entered a recession in February, which formally ended the record 128-month expansion that began in June, 2009. The Federal Reserve's economic outlook is "all over the map", which is said to be a sign of how uncertain these times are, according to Jeff Cox of cnbc.com reporting on June 12, 2020. Deloitte Insights reporting says the pandemic has dealt a massive blow to consumer spending and GDP, and uncertainty about medical and economic issues will likely hold back investment. The U.S. economy is not anticipated to begin a strong recovery until mid-2021.

A surge of new COVID-19 cases threatens to hinder America's economic recovery as state governments delay or walk back reopenings and infection fears keep consumers at home, according to Bloomberg.com on July 20, 2020. The economy had strong months in June and July, but Morgan Stanley is warning the economy could begin shedding jobs again in August. This is due to small businesses exhausting forgivable government loans they received and larger companies starting to thin payrolls in preparation of a longer-than-expected downturn.

The Federal Reserve has signaled that it anticipates holding interest rates steady at near-zero through 2022, forecasts the U.S. economy to contract by 6.5% and the unemployment rate to decline to 9.3% by year-end. Forecast published by the Congressional Budget Office projects that if current laws governing federal taxes and spending generally remain in place, the economy will grow rapidly during the third quarter of 2020. Real gross domestic product (GDP) is expected to grow at a 12.4 percent annual rate in the second half of 2020 and to recover to its prepandemic level by mid-2022.

Treasuries with maturities 5 years and shorter were flat to slightly higher in price while those with maturities of 7 years and longer sold off marginally taking yields higher, as published in Raymond James Fixed Income Weekly Primer, dated July 6, 2020. A 10-year note was .680%, which is down .091% from the amount reported for March 31, 2020.

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 June 30, 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: 6/30/2020									
Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	6/30/2020 Annual Yield to Maturity	6/30/2019 Annual Yield to Maturity
Fixed Income Assets									
Government Bonds	\$ 2,734,448	\$ 2,723,604	\$ 2,827,617	\$ 104,013	\$ 13,514	\$ 38,546	11.6%	1.36%	2.32%
Government Asset Backed/CMO Securities	6,883,787	5,929,228	6,044,003	114,775	85,627	119,353	24.7%	3.60%	3.16%
Municipal Bonds	1,458,000	1,458,365	1,484,551	26,186	58,955	39,303	6.1%	2.65%	2.89%
Certificates of Deposit	1,700,576	1,703,638	1,721,188	17,550	58,555	34,172	7.0%	1.36%	2.54%
Local Government Investment Pool/Money Market	8,549,240	8,549,240	8,549,240	-	35,465	360,902	34.9%	1.10%	2.39%
Total Investments			\$20,626,599						
Cash and Equivalents			3,837,557						
Total Cash and Investments			\$24,464,156						

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.

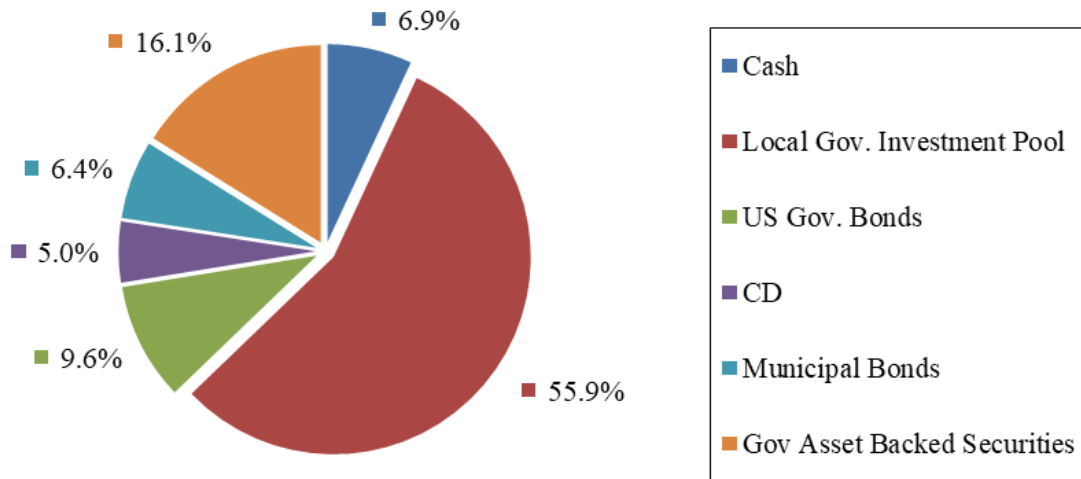
Quarter Investments

As of June 30, 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	\$ 3,837,557
Total amount in the investment accounts	<u>20,626,599</u>
	\$24,464,156

The following chart details the diversification of City investments as of June 30, 2020.

Diversification - Fourth Quarter of Fiscal Year 2020
Last Day of the Quarter



Cash and Investment by Fund

Fund	Amount at 06/30/2020	Amount at 06/30/2019
General Fund	\$11,394,155	\$9,553,291
Major Road	1,365,226	\$901,409
Local Road	2,847,037	\$2,459,757
Downtown Development Authority	179,299	\$124,760
Drug Forfeiture	240,088	\$232,891
Community Development Block Grant	(22,829)	(17,661)
Special Assessment	546,103	\$639,204
Fire Station Bond	16,020	\$9,585
Water and Sewer	7,766,625	\$8,278,499
Escrow	132,432	\$139,994
Total Cash and Investments	\$24,464,156	\$22,321,728

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