



CITY OF MADISON HEIGHTS
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FINANCE/TREASURER DEPARTMENT

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MEMORANDUM

DATE: October 14, 2020
TO: Mayor and City Council
Melissa Marsh, City Manager
FROM: Linda A. Kunath, Finance Director/Treasurer
SUBJECT: Investment Report 1st Quarter Fiscal Year 2021

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, 2020, for the City of Madison Heights, is being presented in this memorandum.

Investment Overview

The coronavirus 2019 disease (COVID-19) pandemic has created both a public health crisis and an economic crisis in the United States. America has about 4.25% of the world's population, but over 20% of total COVID-19 deaths. There are 6.8 million more unemployed workers today than there were in February. Nearly 22 million jobs were lost at the start of the pandemic, the steepest decline since the great depression, with about 11.4 million jobs added back to the U.S. economy between May to September. The Federal Reserve is described as having an "all in" approach to do whatever it takes to support the economy, with a willingness to tolerate inflation levels above 2% and not raise short-term rates. The initial federal CARES Act and other federal programs stimulus were highly effective in avoiding a more catastrophic economic result.

SEMCOG Legislative News noted billions of CARES Act dollars were poured into Michigan, stimulating consumer spending, which impacted sales and income tax revenue collections. This is good news for local government revenue sharing dollars, which is estimated to remain close to forecast amounts. However, the International Monetary Fund (IMF) is reported to warn that the global recovery is not assured while the pandemic continues to spread, in an article by Andrew Walker, BBC World Service economic correspondent. The IMF predicts the global economy will decline by 9.8% this year and the current deep economic recession still has a sizable risk of a worse outcome than is forecasted. U.S. real gross domestic product (GDP) is expected to decline 4.9% in 2020, with a modest rise of 3.8% growth in 2021, and not return to late 2019 level until 2022, according to Kiplinger.com report.

Treasuries were generally up week over week this past current quarter, but compared to a year ago, a 5-year Treasury was yielding 1.48% and is now .34%, as published in Raymond James Fixed Income Weekly Primer, dated October 13, 2020. A 10-year CD was .85%, but is now much lower than 2.1% of a year ago.

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, 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										
Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	9/30/2020 Annual Yield to Maturity	9/30/2019 Annual Yield to Maturity			
Fixed Income Assets												
Government Bonds	\$ 3,022,255	\$ 3,009,365	\$ 3,066,301	\$ 56,936	\$ 6,860	\$ 35,549	7.9%	1.16%	2.17%			
Government Asset Backed/CMO Securities	5,630,672	4,465,268	4,539,970	74,702	11,874	113,710	11.6%	3.19%	3.15%			
Municipal Bonds	2,715,000	2,793,820	2,847,236	53,416	133,678	89,118	7.3%	3.13%	2.71%			
Certificates of Deposit	1,250,714	1,253,777	1,266,138	12,361	50,329	26,754	3.2%	1.38%	2.20%			
Local Government Investment Pool/Money Market	22,570,346	22,570,346	22,570,346	-	35,465	75,000	57.8%	1.72%	2.39%			
Total Investments			\$34,289,991									
Cash and Equivalents			4,767,479									
Total Cash and Investments			\$39,057,470									

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.

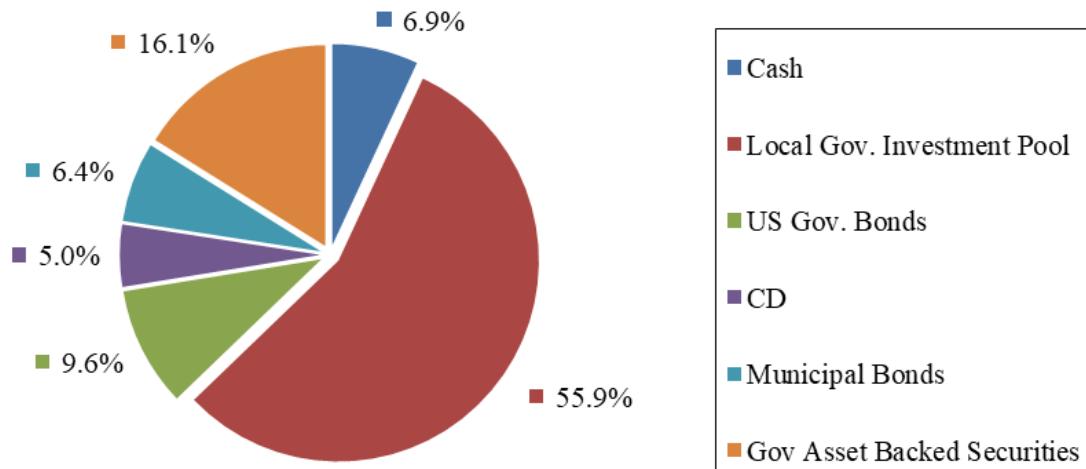
Quarter Investments

As of September 30, 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	\$ 4,767,479
Total amount in the investment accounts	<u>34,289,991</u>
	\$39,057,470

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

Diversification - First Quarter of Fiscal Year 2021
Last Day of the Quarter



Cash and Investment by Fund

Fund	Amount at 09/30/2020	Amount at 09/30/2019
General Fund	\$24,665,664	\$22,665,466
Major Road	1,777,279	\$1,271,191
Local Road	3,701,062	\$3,141,960
Downtown Development Authority	199,636	\$152,074
Drug Forfeiture	236,995	\$214,880
Community Development Block Grant	(11,374)	(23,293)
Special Assessment	570,879	\$655,610
Fire Station Bond	400,360	\$390,208
Water and Sewer	7,383,593	\$7,505,668
Escrow	133,376	\$149,219
Total Cash and Investments	\$39,057,470	\$36,122,983

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