



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

DATE: January 21, 2021
TO: Mayor and City Council
Melissa Marsh, City Manager
FROM: Linda A. Kunath, Finance Director/Treasurer
SUBJECT: Investment Report 2nd 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 December 31, 2020, for the City of Madison Heights, is being presented in this memorandum.

Investment Overview

There was a resurgence of COVID-19 virus in October, 2020, with daily records soaring by mid-January of the number of individuals diagnosed with the disease and those that died from the virus. However, the approval of a number of vaccines along with early vaccine distribution to healthcare workers and the elderly, has stimulated optimism for the coming year.

U.S. real gross domestic product (GDP) grew by 33.4% during the third quarter of 2020, as efforts continued to reopen businesses and resume activities that were postponed or restricted due to COVID-19, according to Bureau of Economic Analysis, bea.gov article dated December 22, 2020. The 10-year Treasury note is expected to rise from current 1.1% to near 2% by year end, which will cause a rise in 10-year mortgage rates from 2.7% to 3.5% by year end. The Federal Reserve is described as being “all in” in doing whatever it takes to support the economy, and Kiplinger.com went on to predict the Fed will not raise short-term rates even if inflation levels pick up, above 2% for a time.

A boost to the economy is expected due to increased spending, with a second economic stimulus check of \$600 that was issued to most Americans in early-January. A \$1.9T economic stimulus package was proposed by newly elected President Biden. This new relief package includes an additional \$1,400 stimulus check to each American, increased unemployment benefits, vaccine distribution, expanded child tax credit, increased hourly minimum wage, funding for schools and state, local, and tribal governments. This expansive package is to be discussed by Congress and Senate in the coming months.

The State Tax Commission has set the inflation rate multiplier at 1.4% for use in the 2021 capped value formula and “Headlee” millage reduction fraction (MRF) formula. This is a .5% reduction from this current year’s 1.9% inflation rate multiplier. Treasuries are trending up this past current quarter, as noted by the 10-year Treasury that is yielding 1.115% in January, compared to .936% last month and .782% in October, as published in Michigan Class (monthly) Economic Update.

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, 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: 12/31/2020			
Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	12/31/2020		Annual Yield to Maturity	12/31/2019	Annual Yield to Maturity
Fixed Income Assets												
Government Bonds	\$ 3,230,614	\$ 3,215,966	\$ 3,257,224	\$ 41,258	\$ 12,577	\$ 35,054	10.1%	1.08%		1.94%		
Government Asset Backed/CMO Securities	4,793,957	3,542,800	3,588,959	46,159	76,362	102,418	11.1%	3.00%		3.17%		
Municipal Bonds	3,745,000	3,875,081	3,905,916	30,835	192,757	128,505	12.1%	3.29%		2.73%		
Certificates of Deposit	757,775	760,837	768,210	7,373	26,849	11,871	2.4%	1.20%		2.13%		
Local Government Investment Pool/Money Market												
Total Investments			\$32,154,524									
Cash and Equivalents			156,816									
Total Cash and Investments			\$32,311,340									

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.

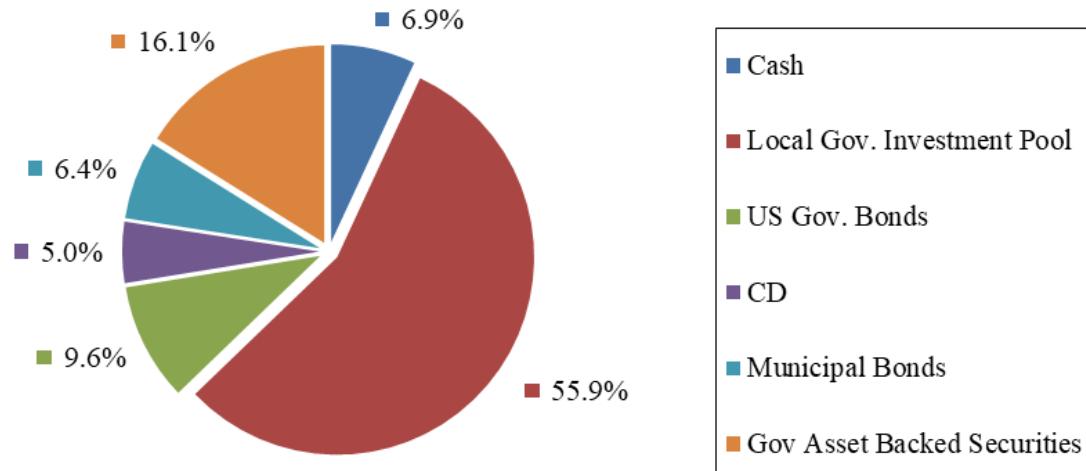
Quarter Investments

As of December 31, 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	\$ (818,970)
Total amount in the investment accounts	<u>33,130,310</u>
	\$ 32,311,340

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

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



Cash and Investment by Fund

Fund	Amount at 12/31/2020	Amount at 12/31/2019
General Fund	\$19,505,632	\$18,017,550
Major Road	876,825	698,824
Local Road	3,027,183	2,446,560
Downtown Development Authority	233,895	166,773
Drug Forfeiture	267,581	285,353
Community Development Block Grant	(32,606)	(10,833)
Special Assessment	558,350	530,918
Fire Station Bond	424,308	411,914
Water and Sewer	7,369,682	7,678,042
Escrow	80,490	41,081
Total Cash and Investments	\$32,311,340	\$30,266,181

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