



CITY OF MADISON HEIGHTS
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FINANCE/TREASURER DEPARTMENT

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MEMORANDUM

DATE: April 6, 2021
TO: Mayor and City Council
Melissa Marsh, City Manager
FROM: Linda A. Kunath, Finance Director/Treasurer
SUBJECT: Investment Report 3rd 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 March 31, 2021, for the City of Madison Heights, is being presented in this memorandum.

Investment Overview

The International Monetary Fund (IMF) projects the US economy to grow 6.4% this year, which is higher than forecasted in January. The U.S. \$1.9 trillion coronavirus rescue package that was signed by the President, which includes another round of stimulus checks, and the vaccine rollouts worldwide, have infused more confidence in the U.S. and global economies this year. The IMF's latest forecasts confirm that the U.S. is on track to not only return but exceed its pre-pandemic performance this year. According to the Center for Disease Control (CDC), as of April 5th, more than 168 million Covid-19 vaccines were administered in the U.S., 36.7% of the population in the State of Michigan, and 40.7% of the population in Oakland County have been vaccinated.

Labor markets made significant progress since unemployment peaked at 14.8% last April. As of February the unemployment rate was 6.2%. Manufacturing is at its highest level since 2018, with prices rising and inventories choked. Employment remains the main weak spot, though some encouraging signs are emerging. A recent article by Jeff Cox, sighted the Atlanta Federal Reserve, which tracks data in real time to estimate changes in gross domestic product, was indicating a 10% gain for the first three months of the year. Real GDP has fully recovered during the current quarter, thereafter, GDP will be in an expansion, record high territory. Economist hadn't expected the \$21.5 trillion U.S. economy to regain its pandemic-related losses until at least the second or third quarter of this year, if not later.

Yields and inflation are expected to rise, according to City investment advisors at Bakertilly. The yield on the 5-year U.S. Treasury has risen 59 basis points, and over the same period 5-year inflation expectations have risen 70 basis points, from 2.00% to 2.7%. Economists are forecasting the Consumer Price Index to be 2.5%, which is up from 1.7% in January. Treasuries are trending up this past current quarter, as noted by the 10-year Treasury that is yielding 1.526% in March, compared to 1.164% last month, a .363% increase, 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 March 31, 2021. 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: 3/31/2021										
Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	3/31/2021 Annual Yield to Maturity	3/31/2020 Annual Yield to Maturity	
Fixed Income Assets										
Government Bonds	\$ 3,075,528	\$ 3,059,979	\$ 3,076,247	\$ 16,268	\$ 5,203	\$ 37,181	11.2%	1.21%	1.92%	
Government Asset Backed/CMO Securities	5,095,273	3,653,608	3,654,082	474	80,254	102,843	13.3%	2.97%	3.09%	
Municipal Bonds	3,745,000	3,875,081	3,873,675	(1,406)	192,909	128,606	14.1%	3.32%	2.71%	
Certificates of Deposit	757,815	760,878	765,417	4,539	26,866	11,773	2.8%	1.19%	2.04%	
Local Government Investment Pool/Money Market										
	14,171,380	14,171,380	14,171,380	-	30,007	104,877	51.5%	0.84%	2.30%	
Total Investments			\$25,540,801							
Cash and Equivalents			1,983,989							
Total Cash and Investments			\$27,524,790							

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.

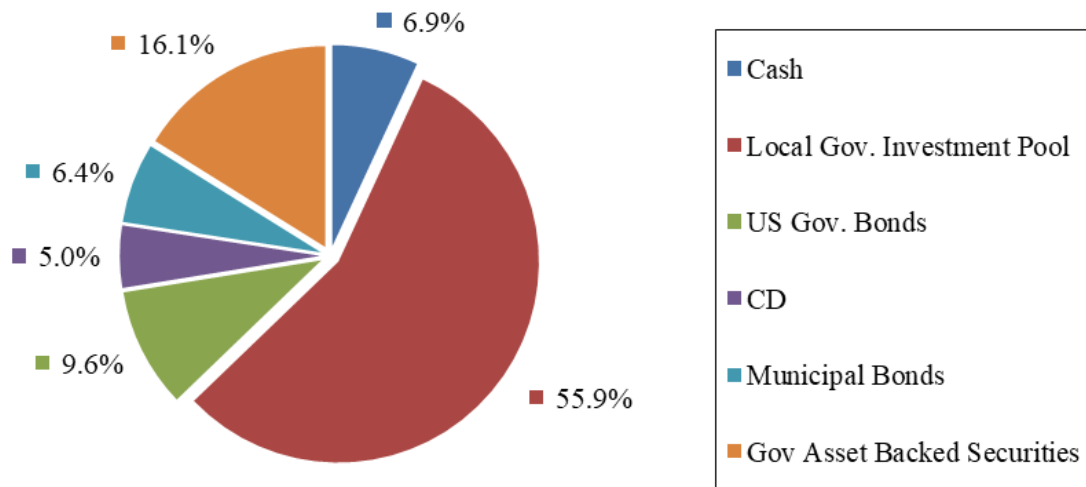
Quarter Investments

As of March 31, 2021, 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	\$ 986,645
Total amount in the investment accounts	<u>26,538,145</u>
	\$ 27,524,790

The following chart details the diversification of City investments as of March 31, 2021.

**Diversification - Third Quarter of Fiscal Year 2021
Last Day of the Quarter**



Fund	Amount at 03/31/2021	Amount at 03/31/2020
General Fund	\$14,450,329	\$14,389,814
Major Road	1,116,908	1,053,010
Local Road	3,117,892	2,551,097
Downtown Development Authority	221,638	167,629
Drug Forfeiture	274,886	353,860
Community Development Block Grant	(24,670)	(6,643)
Special Assessment	255,762	553,606
Fire Station Bond	429,519	287,350
Water and Sewer	7,490,877	7,573,212
Escrow	191,649	5,651
Total Cash and Investments	\$27,524,790	\$26,928,586

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