



CITY OF MADISON HEIGHTS
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FINANCE/TREASURER DEPARTMENT

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MEMORANDUM

DATE: July 16, 2021
TO: Mayor and City Council
Melissa Marsh, City Manager
FROM: Linda A. Kunath, Finance Director/Treasurer
SUBJECT: Investment Report 4th 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 June 30, 2021, for the City of Madison Heights, is being presented in this memorandum.

Investment Overview

The Gross Domestic Product (GDP) is forecast to grow by 6.7% in 2021 and 3.7% in 2022, according to S&P Global, and the unemployment rate will likely reach under 4% by the first quarter of 2023. The International Monetary Fund (IMF) raised its 2021 U.S. growth projection to 7.0% due to a strong recovery from the COVID-19 pandemic and an assumption that much of President Biden's infrastructure and social spending plans will be enacted. A better vaccination outlook, faster reopening schedule, and \$2.8 trillion from two stimulus packages have boosted the U.S. economic recovery this year.

City investment advisors at Bakertilly predict inflation fears are fading with the 10-year Treasury yield falling 40 basis points since the start of the second quarter. There is some concern that growth is slowing, too. Complicating matters is the spreads of the COVID delta variant. Consumers see prices overall up 4.8% in the next 12 months, according to a New York Fed survey, but a Bank of America survey indicates that professional investors are more inclined to believe that inflation will be temporary. Federal interest rate hikes are expected to be in the first and third quarters of 2023, followed by two more in 2024.

The daily 5-year Treasury yield curve rate has fell from .92% on 3/31/21 to .87% on 6/30/21. According to the Bureau of Labor Statistics (BLS), the Consumer Price Index rose .9% in June after rising .6% in May, which was the largest 1-month change since June 2008. Over the last 12 months, all items index increased 5.4%, which was the largest increase since August 2008, just before the worst of the financial crisis. Economists surveyed by Dow Jones had been expecting a 5% gain.

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, 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: 6/30/2021 | 6/30/2021 |
| Description | Amount | Adjusted Cost | Market Value | Unrealized Gain (Loss) | Accrued Interest | Estimated Annual Income | % of Total Portfolio | Annual Yield to Maturity | Annual Yield to Maturity | |
| Fixed Income Assets | | | | | | | | | | |
| Government Bonds | \$ 2,895,906 | \$ 2,895,193 | \$ 2,916,444 | \$ 21,251 | \$ 7,962 | \$ 26,964 | 12.2% | 0.92% | 1.36% | |
| Government Asset Backed/CMO Securities | 5,626,791 | 3,950,562 | 3,913,357 | (37,205) | 50,745 | 108,600 | 16.3% | 2.89% | 3.60% | |
| Municipal Bonds | 2,780,000 | 2,881,552 | 2,888,114 | 6,562 | 142,398 | 94,932 | 12.0% | 3.29% | 2.65% | |
| Certificates of Deposit | 2,260,844 | 2,264,449 | 2,266,624 | 2,175 | 41,649 | 32,279 | 9.4% | 2.07% | 1.36% | |
| Local Government Investment Pool/Money Market | 10,212,172 | 10,212,172 | 10,212,172 | - | 30,007 | 150,752 | 42.6% | 0.42% | 1.10% | |
| Total Investments | | | \$22,196,711 | | | | | | | |
| Cash and Equivalents | | | 1,792,545 | | | | | | | |
| Total Cash and Investments | | | \$23,989,256 | | | | | | | |

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.

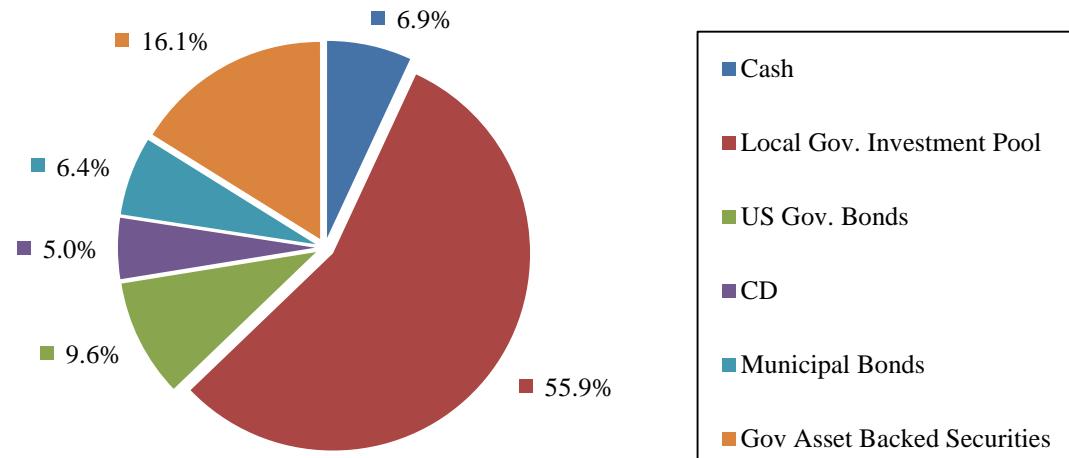
Quarter Investments

As of June 30, 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 | \$ 1,357,447 |
| Total amount in the investment accounts | <u>22,631,809</u> |
| | \$ 23,989,256 |

The following chart details the diversification of City investments as of June 30, 2021.

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



| Fund | Amount at 06/30/2021 | Amount at 06/30/2020 |
|-----------------------------------|----------------------|----------------------|
| General Fund | \$12,949,685 | \$11,394,155 |
| Major Road | 1,037,211 | 1,365,226 |
| Local Road | 2,521,847 | 2,847,037 |
| Downtown Development Authority | 236,528 | 179,299 |
| Drug Forfeiture | 235,815 | 240,088 |
| Community Development Block Grant | (21,563) | (22,829) |
| Special Assessment | 267,223 | 546,103 |
| Fire Station Bond | (6,719) | 16,020 |
| Water and Sewer | 6,497,199 | 7,766,625 |
| Escrow | 272,030 | 132,432 |
| Total Cash and Investments | \$23,989,256 | \$24,464,156 |

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