



CITY OF MADISON HEIGHTS
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FINANCE/TREASURER DEPARTMENT

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MEMORANDUM

DATE: October 11, 2021
TO: Mayor and City Council
Melissa Marsh, City Manager
FROM: Linda A. Kunath, Finance Director/Treasurer
SUBJECT: Investment Report 1st Quarter Fiscal Year 2022

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, 2021, for the City of Madison Heights, is being presented in this memorandum.

Investment Overview

The September 2021 Economic Update from Michigan Class investments states that the Delta variant of COVID-19 has shown signs of impacting consumer behavior, softening demand for services such as air travel, restaurant dining, and hotel reservations. Despite lingering inflation concerns, the labor market remains pivotal to the outlook for monetary policy. It will likely be some time before any serious discussion regarding raising the Federal Funds Target Rate takes place. Federal Reserve's Chair Jerome Powell stated the Fed's framework for raising interest rates includes a different and substantially more stringent test. The market does not anticipate a rate hike until early 2023.

PNC Financial Services Group senior economic advisor Stuart Hoffman was optimistic about the economic growth in the U.S., as reported in a recent interview with the Detroit Free Press. Mr. Hoffman stated that much of the growth depends on vaccination efforts and the opportunity to get on the other side of the pandemic. He further stated that the country is likely to avoid a recession in 2022, 2023 and 2024. This forecast presumes continued economic growth if Congress agrees to raise the debt ceiling and pass a \$1 trillion infrastructure package to address the country's roads, bridges and broadband initiatives and pass a separate compromise bill of another \$2 trillion or more in social policy spending on education, health care, climate and other programs.

The Gross Domestic Product (GDP) is now above the prepandemic level, even though employment is 4.4% below the fourth-quarter average, according to Deloitte Insights. GDP is expected to remain above the prepandemic baseline level for the entire forecast horizon and is forecast to grow by 5.5% in 2021 and 4.2% in 2022. The unemployment rate is predicted to reach under 4% by the first quarter of 2023. Michigan's unemployment rate fell by 3.8%, from 8.5% August 2020 to 4.7% August 2021.

The 10-year U.S. Treasury note rate was 1.37% in September 2021 and is forecasted to increase to 1.43% by May 2022. According to the Kiplinger report, Chair Jerome Powell has said that the Fed would consider any spike in inflation this year to be temporary. The daily 5-year Treasury yield rose to 1.056% currently from .87% on 6/30/21. According to the Bureau of Labor Statistics (BLS), the Consumer Price Index rose 5.3% for the 12 months ending August 2021.

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, 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 Listing, by Security Type							
Investment Analysis									
Qtr End: 9/30/2021									
Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	9/30/2021 Annual Yield to Maturity	9/30/2020 Annual Yield to Maturity
Fixed Income Assets									
Government Bonds	\$ 2,923,041	\$ 2,922,617	\$ 2,938,605	\$ 15,988	\$ 3,362	\$ 29,299	7.3%	1.00%	1.16%
Government Asset Backed/CMO Securities	5,788,074	3,884,319	3,832,158	(52,161)	45,538	104,819	9.5%	2.91%	3.19%
Municipal Bonds	3,010,000	3,115,906	3,100,162	(15,744)	166,572	111,048	7.7%	3.58%	3.13%
Certificates of Deposit	2,262,854	2,264,460	2,266,159	1,699	41,811	24,646	5.6%	0.63%	1.38%
Local Government Investment Pool/Money Market	26,723,170	26,723,170	26,723,170	-	30,007	158,980	66.4%	0.32%	1.72%
Total Investments			\$38,860,254						
Cash and Equivalents			1,383,250						
Total Cash and Investments			\$40,243,504						

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).

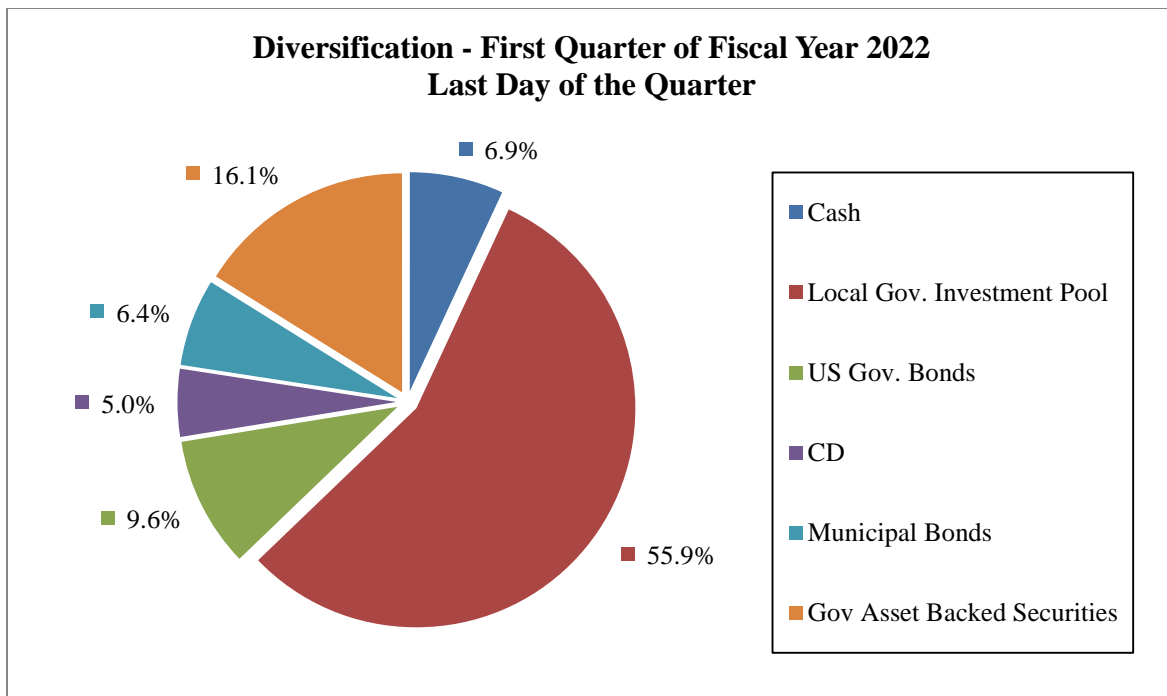
Concentration of risk occurs when the municipality is heavily invested in one issuer. The city's largest issuer is the Local Government Investment Pool managed by Oakland County. This pool is diversified with other County investments.

Quarter Investments

As of September 30, 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	\$ 1,121,380
Total amount in the investment accounts	<u>39,122,124</u>
	\$ 40,243,504

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



Cash and Investment by Fund

Fund	Amount at 09/30/2021	Amount at 09/30/2020
General Fund	\$27,673,118	\$24,665,664
Major Road	1,648,589	1,777,279
Local Road	3,616,740	3,701,062
Downtown Development Authority	244,545	199,636
Drug Forfeiture	230,258	236,995
Community Development Block Grant	(15,075)	(11,374)
Special Assessment	288,379	570,879
Fire Station Bond	436,551	400,360
Water and Sewer	5,954,163	7,383,593
Escrow	166,236	133,376
Total Cash and Investments	\$40,243,504	\$39,057,470

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