



**CITY OF MADISON HEIGHTS**  
300 WEST 13 MILE ROAD, MADISON HEIGHTS, MI 48071

**FINANCE/TREASURER DEPARTMENT**

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**MEMORANDUM**

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**DATE:** October 25, 2022  
**TO:** Mayor and City Council  
Melissa Marsh, City Manager  
**FROM:** Linda A. Kunath, Finance Director/Treasurer  
**SUBJECT:** Investment Report 1<sup>st</sup> Quarter Fiscal Year 2023

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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, 2022, for the City of Madison Heights, is being presented in this memorandum.

Investment Overview

The stock market forecast for 2022 projects a decline, but lower than originally expected. S&P 500 forecast a decline of 17% to 4,000 from 4,800, which is nearly a 10% jump from 10/17/22 opening level of 3,636, Business Insider reports. Recession probability forecast have increased for 2023, with estimated downturn by October 2023, according to Bloomberg. Goldman Sachs economists predict a slowdown in 2023 with a drastic decline in the U.S. housing market, and price growth to stall in the third quarter of 2023. Fannie Mae Economic and Strategic Research Group anticipates a combination of high inflation, monetary policy tightening, and a slowing housing market will tip the economy into a modest recession in the first quarter of 2023.

The Federal Open Market Committee (FOMC) is expected to raise the federal funds rate by an additional 75 basis points at both of its November and December meetings. If the Federal Reserve sees a combination of easing price pressures and a slowing economy, then it is likely to reduce or stop rate hikes next year.

Leading trend indicator of inflation include price growth, flat goods prices (food and energy), price hikes in services, and wages rising in response to inflation, creating a cycle with some momentum. Additionally, if natural gas supplies are strained, the prices consumers pay for natural gas and electricity could increase this winter. Core inflation remains higher than the Federal Reserve's stated target, despite continued strength in labor markets. The unemployment rate fell to 3.5%, tied for the lowest since late-1969. Core inflation is up 6.6% from a year ago, the biggest 12-month gain since August 1982. Inflation is hovering near a four-decade high. Predicted by Kiplinger, inflation will end 2022 at a high around 8.0%, but should drop to 3.5% by the end of 2023.

The 10-year U.S. Treasury note rate of 3.89% is higher compared to 2.93% at June quarter end. The daily 5-year Treasury yield rose again this quarter to 4.14%, compared to 3.05% at beginning of the quarter. CD rates rose since the beginning of the quarter for 1-year term to 4.10% from 3.00% and for 5-year term rates to 4.50% from 3.45%. 30-year municipal bonds rose from 2.993% to 3.779% during the quarter. The food index rose .8% for the month of September and was up 11.2% from a year ago. Energy prices declined 2.1% that included a 4.9% drop in gasoline. The Consumers Price Index increased 8.2 percent for the 12 months ending September.

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, 2022. 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: 9/30/2022									
Description	Amount	Adjusted Cost	Market Value	Unrealized Gain (Loss)	Accrued Interest	Estimated Annual Income	% of Total Portfolio	9/30/2022 Annual Yield to Maturity	9/30/2021 Annual Yield to Maturity
<b>Fixed Income Assets</b>									
Government Bonds	\$ 3,359,414	\$ 3,355,496	\$ 3,228,296	\$ (127,200)	\$ 13,840	\$ 79,135	7.1%	2.45%	1.00%
Government Asset Backed/CMO Securities	7,555,627	7,653,883	7,220,875	(433,008)	18,134	86,823	15.9%	2.82%	2.91%
Municipal Bonds	1,620,000	1,662,072	1,607,039	(55,033)	77,982	51,988	3.5%	3.24%	3.58%
Certificates of Deposit	989,954	984,676	988,259	3,583	-	6,980	2.2%	1.29%	0.63%
<b>Local Government Investment Pool/Money Market</b>	<b>28,301,932</b>	<b>28,301,932</b>	<b>28,301,932</b>	<b>-</b>	<b>15,128</b>	<b>114,894</b>	<b>62.2%</b>	<b>1.35%</b>	<b>0.32%</b>
Total Investments			\$41,346,401						
<b>Cash and Equivalents</b>			<b>4,147,300</b>						
Total Cash and Investments			\$45,493,701						

## 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).

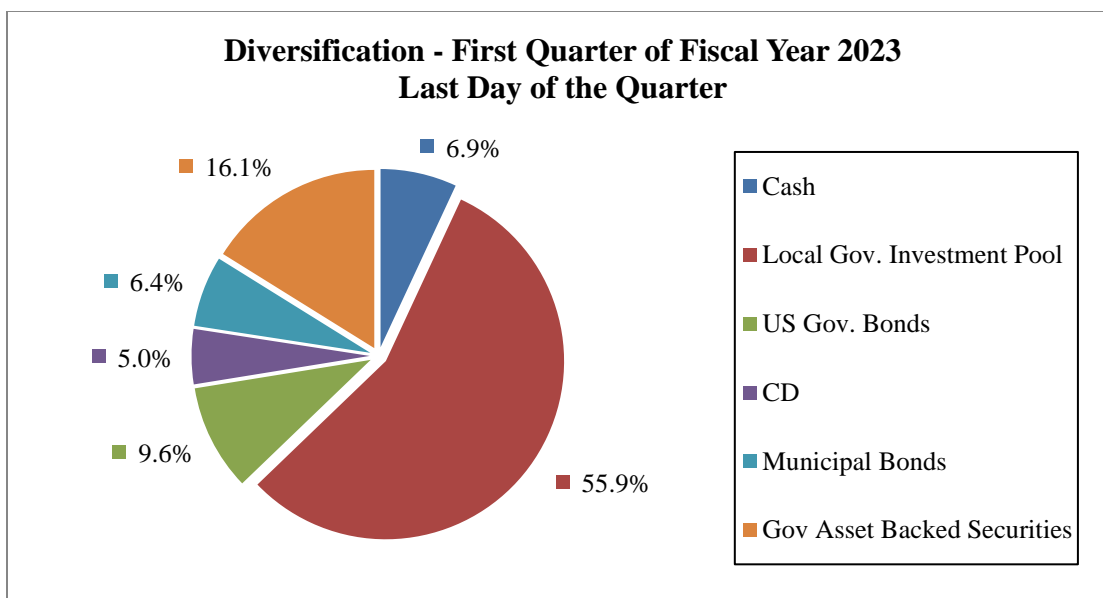
Concentration of risk occurs when the municipality is heavily invested in one issuer. The city's largest issuer is the Local Government Investment Pool managed by Oakland County. This pool is diversified with other County investments.

### Quarter Investments

As of September 30, 2022, 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	\$ 3,972,135
Total amount in the investment accounts	<u>41,521,566</u>
	\$ 45,493,701

The following chart details the diversification of City investments as of September 30, 2022.



### Cash and Investment by Fund

Fund	Amount at 09/30/2022	Amount at 9/30/2021
General Fund	\$33,147,867	\$27,673,118
Major Road	2,317,032	1,648,589
Local Road	5,190,141	3,616,740
Downtown Development Authority	346,529	244,545
Drug Forfeiture	163,301	230,258
Community Development Block Grant	(15,822)	(15,075)
Special Assessment	275,250	288,379
Fire Station Bond	414,825	436,551
Water and Sewer	3,373,157	5,954,163
Escrow	281,421	166,236
<b>Total Cash and Investments</b>	<b>\$45,493,701</b>	<b>\$40,243,504</b>

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