



CITY OF MADISON HEIGHTS
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FINANCE/TREASURER DEPARTMENT

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MEMORANDUM

DATE: October 23, 2024
TO: Mayor and City Council
Melissa Marsh, City Manager
FROM: Linda A. Kunath, Finance Director/Treasurer
SUBJECT: Investment Report 1st Quarter Fiscal Year 2025

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, 2024, for the City of Madison Heights, are being presented in this memorandum.

Investment Overview

The Federal Open Market Committee (FOMC) reduced the federal funds target rate as a range between 4.75% to 5.00% and reduced the rate by 50-basis points in mid-September. Bakertilly Investment Services stated the FOMC decision was based on the assessment that while economic growth remained strong, inflation was still elevated, though expected to return to 2%. Markets are anticipating another 75-basis points reduction by the end of the year. The projection is for the FOMC to continue to drop rates in the next few years and a rate increase is unlikely. The Consumer Price Index (CPI) dropped from 3.4% in May to 2.4% in September and is still slightly above expectations of 2.3%.

The United States economy is described as remaining to be the engine of global growth according to Reuters. Robust consumer spending that has held up through a wrenching bout of inflation and the high interest rates used to tame it, said the International Monetary Fund (IMF). The IMF raised its 2024 and 2025 economic growth forecasts for the United States, which is the only developed economy to see its outlook marked up for both years. IMF chief economist said the “soft landing” sought by the Federal Reserve in which inflation eases without big damage to the job market had largely been achieved. 2024 is the second year in a row for the United States to be leading the advanced economies on growth. S&P Global ratings expects the United States economy to expand on an annual average basis 2.7% in 2024 and 1.8% in 2025. Fannie Mae forecast a 30-year fixed mortgage rate will average 6.6% in 2024 and reduce down to 5.7% average in 2025. Gross Domestic Product (GDP) is expected to increase at an average annual rate of 2.5% per year from 2024 through 2028, according to Deloitte economic forecast.

The 10-year U.S. Treasury note rate of 4.21% is a slight increase from 4.17% at June quarter end. The 5-year Treasury yield this quarter decreased to 3.93% compared to 4.09% at the beginning of the quarter. A 1-year U.S. Treasury note is 4.21% at end of quarter compared to 4.85% at June quarter end. CD rates for 1-year term were 3.95% this quarter decreased from 4.75% last quarter end. The 30-year municipal bonds decreased slightly to 3.65% compared to 3.74% at June quarter end. The 10-year bond rate average yield is currently 3.81%, which is less than 4.28% last quarter.

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, 2024. 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: 9/30/2024								9/30/2024	9/30/2023
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	\$ 7,575,000	\$ 7,383,960	\$ 7,525,825	\$ 141,865	\$ -	\$ -	15.3%	0.00%	3.79%		
Government Asset Backed/CMO Securities	8,080,000	7,234,584	7,502,128	267,544	188,024	20,134	15.3%	3.23%	2.76%		
Municipal Bonds	50,000	52,892	50,013	(2,879)	3,691	2,461	0.1%	4.92%	3.86%		
Certificates of Deposit	298,870	298,870	298,870	-	-	15,645	0.6%	2.62%	2.74%		
Local Government Investment Pool/Money Market	25,237,316	25,237,316	25,237,316	-	39,384	298,513	51.3%	3.64%	2.49%		
Total Investments			\$40,614,152								
Cash and Equivalents			8,558,505								
Total Cash and Investments			\$49,172,657								

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).

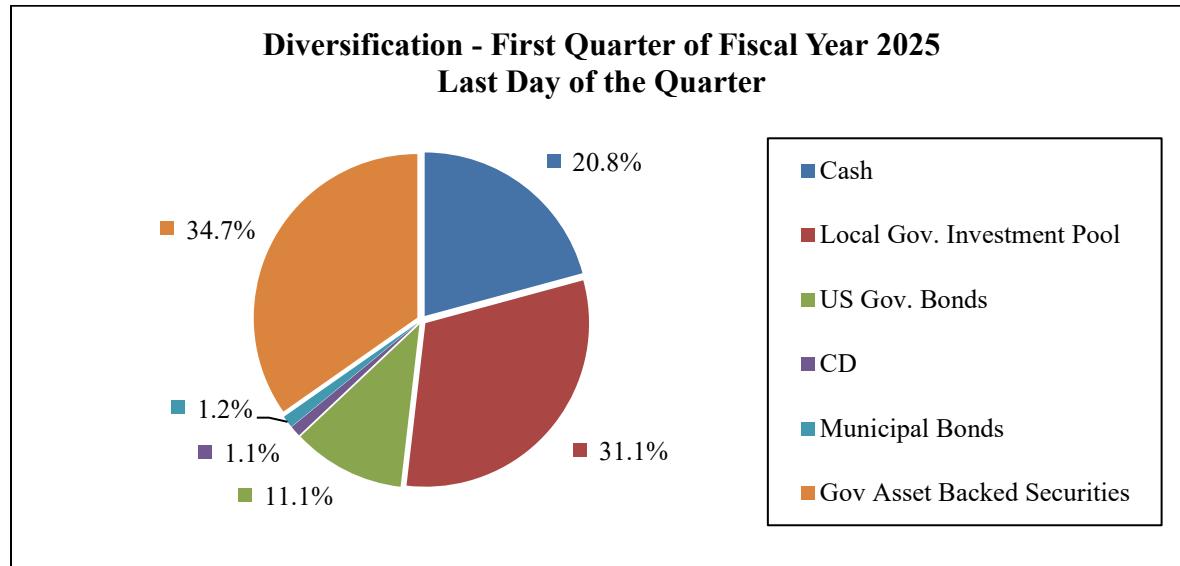
Concentration of risk occurs when the municipality is heavily invested in one issuer. The city's largest issuer is the Local Government Investment Pool managed by Oakland County. This pool is diversified with other County investments.

Quarter Investments

As of September 30, 2024, 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	\$ 3,400,712
Total amount in the investment accounts	<u>45,771,945</u>
	\$ 49,172,657

The following chart details the diversification of City investments as of September 30, 2024.



Cash and Investment by Fund

Fund	Amount at 09/30/2024	Amount at 09/30/2023
General Fund	\$32,752,529	\$33,147,867
Major Road	4,205,309	2,317,032
Local Road	6,257,178	5,190,141
Downtown Development Authority	717,663	346,529
Drug Forfeiture	198,607	163,301
Community Development Block Grant	(45,468)	(15,822)
Special Assessment	257,755	275,250
Municipal Building Bond	(309,920)	0
Fire Station Bond	0	414,825
Water and Sewer	4,705,086	3,373,157
Escrow	433,918	281,421
Total Cash and Investments	\$49,172,657	\$45,493,701

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