

**To: Benjamin I. Myers, City Manager**

**From: Melissa R. Marsh, Deputy City Manager - Administrative Services**

**Date: January 31, 2014**

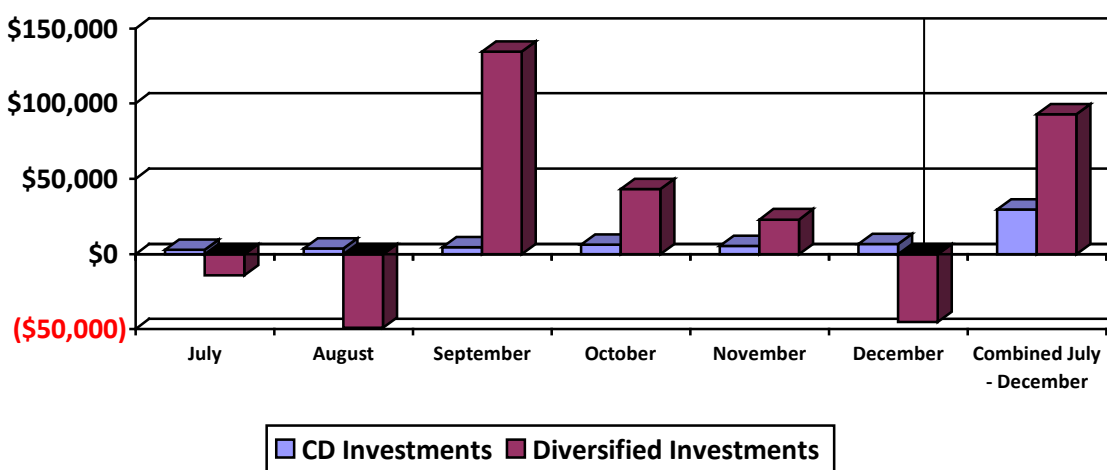
**RE: Investment Report 4th Quarter 2013**

The requirements of the City of Madison Heights Investment Policy and P.A. 20 of 1943, as amended, govern the investments held by the City. Using these guidelines, I have researched appropriate benchmarks to compare the City's returns. Based on the types of investment allowed, the benchmark is being shown as the Bank of America Merrill Lynch 3 month US Treasury Bill, Barclays US Government Bond Index, and the Bank of America Merrill Lynch 1-3 year Treasury.

**Local Interest Rate Overview:**

As detailed in the third quarter report we continue to pursue a diversified investment strategy instead of moving to vehicles such as 100% Certificates of Deposit. This is due to the long term nature of our fixed rate investments and the higher rate of return we will realize by holding these fixed rate vehicles such as bonds and treasuries until either the call date or maturity. As explained in previous reports in any given quarter the method of marketing investments to market value may result in loss however holding bonds until maturity would result in total return of investment. I have included a chart below that will compare our current returns with what our returns would be if we were invested 100% in certificates of deposit at the current rate of 0.2%.

**Investment Earnings**



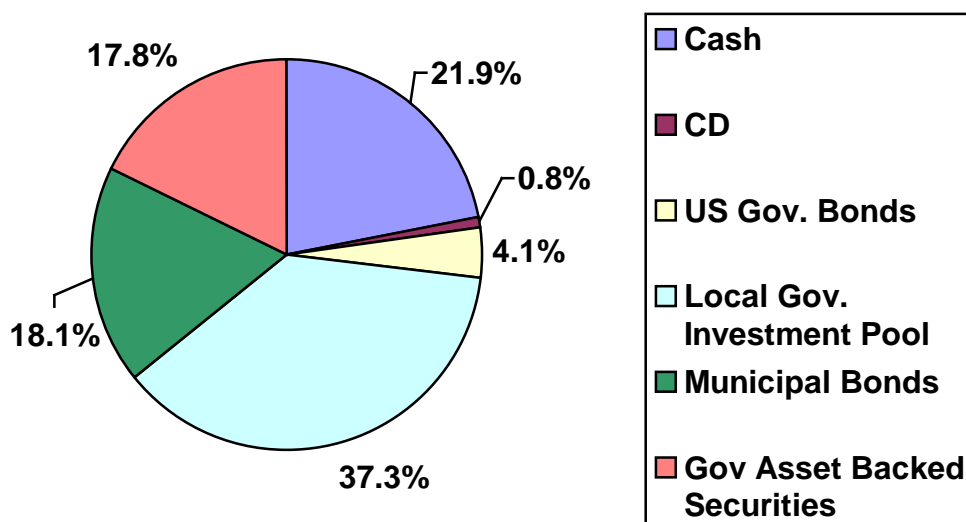
Investing with fixed rate returns continues to be challenging due to the economy and continued low interest rates. The investment earnings of the City funds are increasing but continue to be low.

As of December 31, 2013 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	\$ 6,059,727
<i>(\$2,103,733 of this is being held for tax distributions)</i>	
Total amount in Investments	<u>22,876,490</u>
	\$28,936,217

the chart below details the diversification of the City investments as of December 31, 2013

**Diversification – 2013 Fourth Quarter  
Last Day of the Quarter**



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. This table below details the amount at December 31, 2013 that was in each investment and the estimated Annual Yield. For the bonds included below, there is a difference between the coupon rate and the estimated 4th quarter 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 Specific Rates and Investments**

<b>Investments</b>	<b>Amount at 12/31/13</b>	<b>Annual Yield</b>
MI Class	\$127	0.08%
Comerica Money Market	\$993	0.00%
Bonds – Rochester Hills Bldg. Authority 4/1/15	\$20,841	3.83%
Bonds – Macomb Cnty Bldg. Auth	\$25,302	1.97%
Bonds – Marshall LTD Tax	\$25,431	1.96%
Bonds – Allegan MI Public Schools	\$26,463	4.72%
GHLMC Gold Pass Thru	\$33,004	3.77%
Bonds – Lamphere Schools	\$40,601	4.92%
Bonds – Ypsilanti MI Community Utility Authority	\$50,530	3.71%
Bonds – Utica Community Schools	\$53,042	4.71%
US Treasury Notes 05/31/14	\$63,551	2.23%
Bonds – Hamburg LTD Tax	\$65,633	1.98%
US Treasury Notes - 10/31/15	\$69,123	1.23%
US Treasury Note - 5/31/15	\$72,889	2.06%
Bonds - Wyoming Michigan Public Schools RFDB	\$76,172	4.92%
FNMA Pass Thru	\$57,626	5.56%
FHLMC Pass Thru Pool 06/01/25	\$83,451	3.79%
Federal Home Loan Banks 11/20/24	\$86,456	2.25%
Bonds - Canton Charter Twp 04/01/14	\$101,030	4.94%
Bonds – Lansing MI Community College	\$101,077	3.66%
FNMA Pass thru Pool	\$787,938	4.99%
Federal Home Loan Mortgage – 05/13/16	\$104,927	0.50%
Bonds – Carman Community School	\$106,534	4.92%
FNMA Pass Thru Pool	\$108,713	3.34%

Bonds - MI Fin Auth Rev RFDG-Loc Gov	\$110,798	2.97%
Bonds – Bangor Public Schools	\$125,949	2.97%
Bonds - MI Fin Auth Rev RFDG-Loc Gov	\$127,521	2.94%
Wells Fargo Advantage Money Market	\$141,263	0.01%
FNMA Pass Thru Pool	\$144,931	2.94%
Bonds – Redford Michigan School District	\$152,588	5.40%
US Treasury Notes - 09/30/18	\$157,987	1.39%
Bonds - Chippewa Hills Mich Sch Dist RFDG	\$349,325	4.72%
Bonds – Northville MI Public Schools	\$165,042	2.90%
Bonds – Portage MI	\$168,807	1.95%
FNMA Pass thru Pool Backed Asset	\$259,669	2.94%
US Treasury Notes -5/21/18	\$176,285	0.90%
Bonds - New Buffalo MI BLDG Auth. 11/01/22	\$191,151	3.76%
Bonds - Hamburg Twp	\$201,814	4.08%
Bonds - Big Rapids MI Public Schools - 5/01/15	\$206,414	3.14%
Bonds – Grand Traverse Cnty MI	\$212,175	1.23%
Bonds - Alma Mich Public Schools RFDG	\$227,822	1.97%
US Treasury Notes - 6/30/15	\$219,453	0.37%
Bonds- Morenci Michigan Area Schools RFDG	\$225,582	2.85%
Michigan Finance Auth RFDG	\$228,420	2.95%
Federal Home Ln Bks Step-Up - 5/23/13	\$250,778	1.64%
US Treasury Note - 3/15/15	\$253,524	0.37%
CD – Flagstar, Maturity 11/21/13	\$254,642	0.35%
Bonds – Michigan Fin Auth – Local Gov. Loans	\$264,306	1.96%
Federal Farm Credit Banks - 3/28/13	\$273,846	1.36%
US Treasury Notes - 06/15/16	\$288,685	0.50%

US Treasury Notes - 11/15/23	\$314,353	2.82%
Bonds - Oak Park Refinancing 5/1/28	\$340,005	3.35%
Bonds – Bath MI Community Schools	\$351,317	1.96%
Bonds - MI Fin Auth Rev RFDG-Loc Gov	\$355,941	2.95%
Bonds - Lapeer County - 04/01/14	\$402,096	2.98%
US Treasury Notes - 3/31/15	\$498,254	0.25%
Bonds – Grandville MI Public Schools	\$529,255	4.72%
Federal Home Loan Mtg Corp 02/24/15	\$580,209	0.50%
FNMA Pass Thru Pool - 7/1/28	\$1,122,689	4.24%
Chase - checking	\$6,059,727	0.00%
Local Government Investment Pool –Oakland Co.	\$10,842,145	1.03%
<b>Total Cash and Investments</b>	<b>\$28,936,217</b>	<b>1.87%</b>

**Cash and Investment by Fund**

<b>Fund</b>	<b>Amount at 12/31/13</b>
General Fund	\$12,574,964
Major Road	251,343
Local Road	4,083,765
Downtown Development Authority	39,009
Drug Forfeiture	102,237
Housing	436,358
Community Development Block Grant	(5,614)
Special Assessment	1,301,883
Fire Station Bond	347,031
Water and Sewer	7,414,946
Motorpool	(14,285)
Tax Receiving Fund	2,103,733
Escrow	300,847
<b>Total Cash and Investments</b>	<b>\$28,936,217</b>

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