

## MEMORANDUM



**TO:** HONORABLE MAYOR AND CITY COUNCIL MEMBERS  
**FROM:** CARL A. JOHNSON, JR., CFO  
DEBRA PECK, ASSISTANT CITY TREASURER  
**CC:** VICTOR CARDENAS, INTERIM CITY MANAGER  
MARYANNE CORNELIUS, CITY CLERK  
**SUBJECT:** QUARTERLY INVESTMENT REPORT – MARCH 31, 2014  
**DATE:** MAY 14, 2014

*To: Mayor & Council:  
Lost in the shuffle  
please see the  
3rd Qtr. Investment  
Report.  
Vic*

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Attached to this memo is the investment report for the City of Novi as of March 31, 2014. This memo also outlines the investment factors and trends that are playing a role in our investment decisions for the third quarter of the current fiscal year.

### Nationally

According to the minutes of the Federal Open Market Committee (FOMC) meetings held on March 18-19, 2014, "economic growth slowed early this year, likely only in part because of the temporary effects of the unusually cold and snowy winter weather. Total payroll employment expanded further, while the unemployment rate held steady, on balance, and was still elevated. Consumer price inflation continued to run below the Committee's longer-run objective, but measures of longer-run inflation expectations remained stable".<sup>1</sup>

The March jobs report showed job creation was up with 192,000 jobs added in March, however, the national unemployment rate remained unchanged at 6.7%. While private-sector employment surpassed its 2008 high, government employment remained unchanged in March. Federal government employment has dropped by 85,000 jobs in the year since March 2013.<sup>2</sup>

### State

The Southeast Michigan Purchasing Manager's Index (PMI) rose in March, to 55 after February's drop to 47.3. The index has averaged 51.5 over the last three months. A PMI over 50 indicates growth, however, with the volatility in the PMI over the past four months, the Institute for Supply Management has cautioned against drawing conclusions that the March rise indicates a sustained increase in economic activity.<sup>3</sup>

In December, 2013, a Federal judge ruled Detroit is eligible to file for Chapter 9 bankruptcy. The federal judge also ruled that Detroit can alter pensions as part of the bankruptcy proceedings. In April, 2014, a tentative agreement was reached with the

<sup>1</sup> <http://federalreserve.gov/monetarypolicy/fomcminutes20140319.htm> retrieved on 5/13/14

<sup>2</sup> <http://finance.yahoo.com/news/bureau-labor-statistics-shows-192-170024391.html> retrieved on 5/13/14

<sup>3</sup> <http://www.ism-sem.org/resources/files/PMI-March-2014.pdf> retrieved on 5/13/14

Detroit pension boards that will result in a significantly lower cut in pension checks to retirees than was earlier predicted.<sup>4</sup> Part of the tentative agreement calls for a \$350 million contribution to the plan by the State of Michigan. Consideration is being given to funding this through tobacco settlement money, diversion of federal funds from other Detroit-area projects, or other sources. It is expected that the State legislature will consider the contribution before their summer recess at the end of June.<sup>5</sup> City of Novi staff will continue monitoring the Detroit bankruptcy and the impacts it may have on the City of Novi as they proceed.

The City is continuing to invest pursuant to the Investment Policy and the Retirement Health Care Investment Policy. The City's funds are invested in a variety of instruments including money market accounts, certificates of deposit, agencies, and pooled accounts. The primary focus and order of priority is on safety of capital, liquidity, and lastly return on investment.

### **Risk**

As required by the Governmental Accounting Standard Board, GASB 40 identifies a number of reporting and disclosure requirements for public funds that are designed to manage and limit risk in deposits and investments. These disclosures are only required as part of the year-end financial statements, the applicable risks are as follows:

**Interest Rate Risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment or the government's cash flows. Disclosure of interest rate risk addresses the exposures of investments to changes in market value as interest rates increase or decrease from current levels. In accordance with the City investment policy, the City limits its exposure to possible decline in fair market value by controlling duration or maturities. The City prohibits investment of operating funds in securities maturing more than two years from the date of purchase. Capital Improvement and Reserve Funds, Special Assessment Funds, Post-Retirement Health Care Fund, Perpetual Drain Fund, and Water and Sewer Fund are permitted to hold investments with maturities exceeding two years, provided sufficient funds are held in short term or highly liquid investment funds to meet anticipated and unanticipated needs.

**Credit Risk:** Credit risk is the risk that the investment counterparty will not fulfill its promise to pay the government when required. There is credit risk associated with the financial institutions, brokers and investment instruments the City does business with. The City's investment officer must also be held to the highest standards. The City's investment policy utilizes the prudent person rule: "Investments are made with judgment and care - under circumstances then prevailing - which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." Any commercial paper purchased must be those rated within the highest classification established by at least two standard rating services. Obligations of the State

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<sup>4</sup> <http://www.freep.com/article/20140415/NEWS01/304150090/> retrieved on 5/13/14

<sup>5</sup> <http://www.freep.com/article/20140416/NEWS06/304160151/detroit-bankruptcy-grand-bargain-hardest-hit-pension-snyder-legislature> retrieved on 5/13/14

or its subdivisions must be rated of investment grade by at least one rating service. Because the State of Michigan does not require collateralization of public funds, the City's policy restricts Certificates of Deposit investments to those with financial institutions that are members of the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration.

**Concentration of Risk:** Governments must disclose any single issuer that comprises more than 5% of the investment value in the portfolio. This disclosure is to insure that there is proper diversification and not a concentration of public funds with any one issuer. While CD's and commercial paper are being used only occasionally for diversification, the City's funds are primarily invested in guaranteed accounts and treasuries. To reduce concentration risk, the City's investments are diversified amongst a number of highly rated financial institutions.

**Investment Report**

Attached is a comprehensive listing of investments the City held at March 31, 2014. The listing includes the market value, type of investment, maturity date, interest rate and amount of investment. The report includes all investment accounts by issuer, pooled fund accounts, as well as the Retiree Health Care Accounts (not subject to Public Act 20 Investment limitations). Please note that all investments, except for the Retiree Health Care Account with MERS, are in accordance with the City's Investment Policy and State statutes and meet the City's investment objectives including: Safety of Capital, Liquidity, and lastly Return on Investment. The issues of non-compliance with the MERS Retiree Health Care Account are currently being addressed and remedies are being considered.

CITY OF NOVI

Quarterly Investment Report

March 31, 2014



	Beginning 12/31/2013	Ending 03/31/2014
<b>Local Government Investment Pools / Money Market</b>		
Market Value	60,252,828	49,244,805
WAM (1) in Days	1	1
Weighted Average Yield to Maturity	0.26%	0.32%
<b>Fixed Income Assets</b>		
Book Value	73,922,406	73,925,566
Market Value	71,206,323	72,233,580
Change in Market Value	-697,923	1,026,848
Unrealized Gain / Loss	-697,923	1,026,848
Realized Gain / Loss	-1,858	0
WAM (1) in Days	2,184	2,098
WAM / Callable (1) in Days	695	808
Yield to Maturity @ Cost	2.22%	2.24%
<b>Annualized, Total Rate of Return - Market Value</b>	<b>-2.41%</b>	<b>7.44%</b>
<b>BENCHMARK</b>		
1 Year Treasury	0.13%	0.13%
6 Month Treasury	0.10%	0.08%
<b>Total Portfolio Value</b>		
Book Value	134,175,235	123,170,371
Market Value	131,459,151	121,478,385
Change in Market Value	-697,923	1,026,848
Unrealized Gain / Loss	-44,080	1,026,848
Realized Gain / Loss	-1,858	0
WAM (1) in Days	1,206	1,260
WAM / Callable (1) in Days	365	485
Yield to Maturity @ Cost	1.35%	1.47%
<b>Annualized, Total Rate of Return - Market Value</b>	<b>-1.23%</b>	<b>4.16%</b>
<b>BENCHMARK</b>		
1 Year Treasury	0.13%	0.13%
6 Month Treasury	0.10%	0.08%

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Carl A. Johnson, Jr  
Finance Director / Treasurer, Chief Financial Officer

5/22/14

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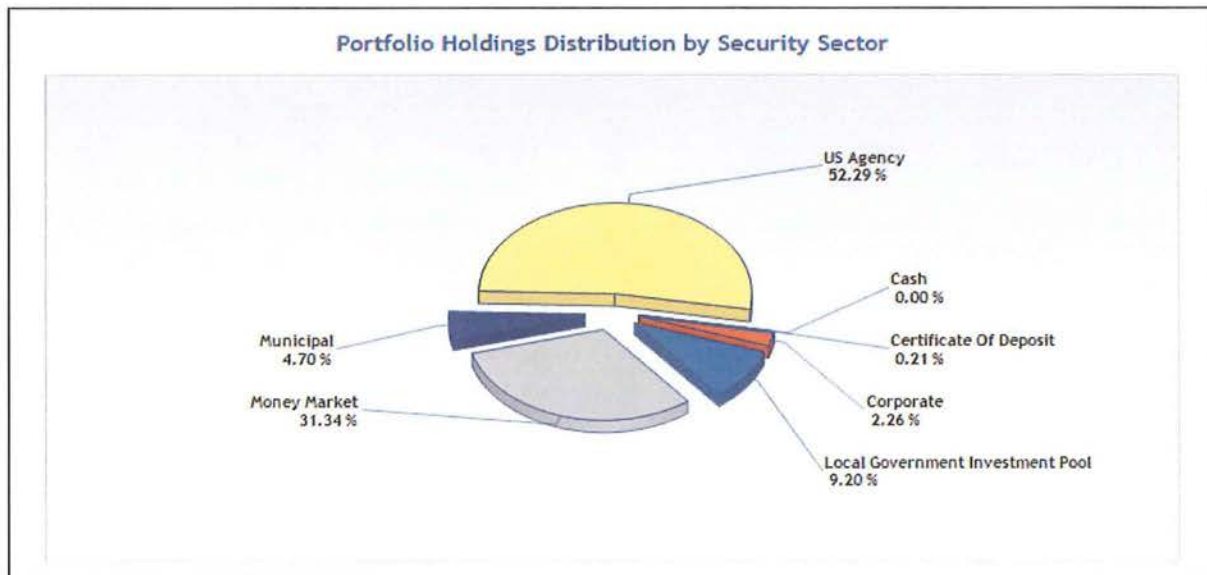
Date



Description	YTM @ Cost	Amount	Cost Value	Book Value	Market Value	Days To Maturity	% of Portfolio
<b>Fixed Income Assets</b>							
Corporate - Abbey National	0.41	2,750,000	2,741,750	2,748,258	2,749,395	57	3.72
FAMC	1.00	3,000,000	3,000,000	3,000,000	2,895,780	1673	4.06
FFCB	1.97	23,025,000	23,025,000	23,025,000	22,392,839	2276	31.15
FHLB	3.01	28,400,000	28,400,000	28,400,000	27,492,334	2443	38.41
FHLMC	2.00	2,000,000	2,000,000	2,000,000	2,002,200	1725	2.71
FNMA	1.17	9,000,000	9,000,000	9,000,000	8,735,140	1737	12.17
Lotus Bank - Certificate of Deposit	0.66	252,308	252,308	252,308	252,308	201	0.34
Michigan Go Bonds Ser 2010 B	2.90	500,000	503,505	500,000	524,885	946	0.68
Michigan State GO Bond	2.90	5,000,000	4,983,900	5,000,000	5,188,700	1706	6.76
<b>Weighted Average Yield</b>	<b>2.24</b>	<b>73,927,308</b>	<b>73,906,463</b>	<b>73,925,566</b>	<b>72,233,580</b>	<b>2098</b>	<b>100.00%</b>
<b>Local Government Investment Pools / Money Market</b>							
Bank of America	0.20	2,105,890	2,105,890	2,105,890	2,105,890	1	4.28
Chase Bank	0.05	98,892	98,892	98,892	98,892	1	0.20
Comerica - Lockbox	0.15	3,089,556	3,089,556	3,089,556	3,089,556	1	6.27
Comerica - Suspense	0.10	3,286	3,286	3,286	3,286	1	0.01
Fifth Third	0.20	32,691,308	32,691,308	32,691,308	32,691,308	1	66.39
Flagstar Bank	0.25	80,426	80,426	80,426	80,426	1	0.16
MBIA Class	0.03	533,874	533,874	533,874	533,874	1	1.08
Oakland County	0.79	10,641,572	10,641,572	10,641,572	10,641,572	1	21.61
<b>Weighted Average Yield</b>	<b>0.32</b>	<b>49,244,805</b>	<b>49,244,805</b>	<b>49,244,805</b>	<b>49,244,805</b>		
<b>Total / Average</b>	<b>1.48</b>	<b>123,172,112</b>	<b>123,151,267</b>	<b>123,170,371</b>	<b>121,478,385</b>	<b>1260</b>	<b>100%</b>

Investment Portfolio - Diversification, by Sector

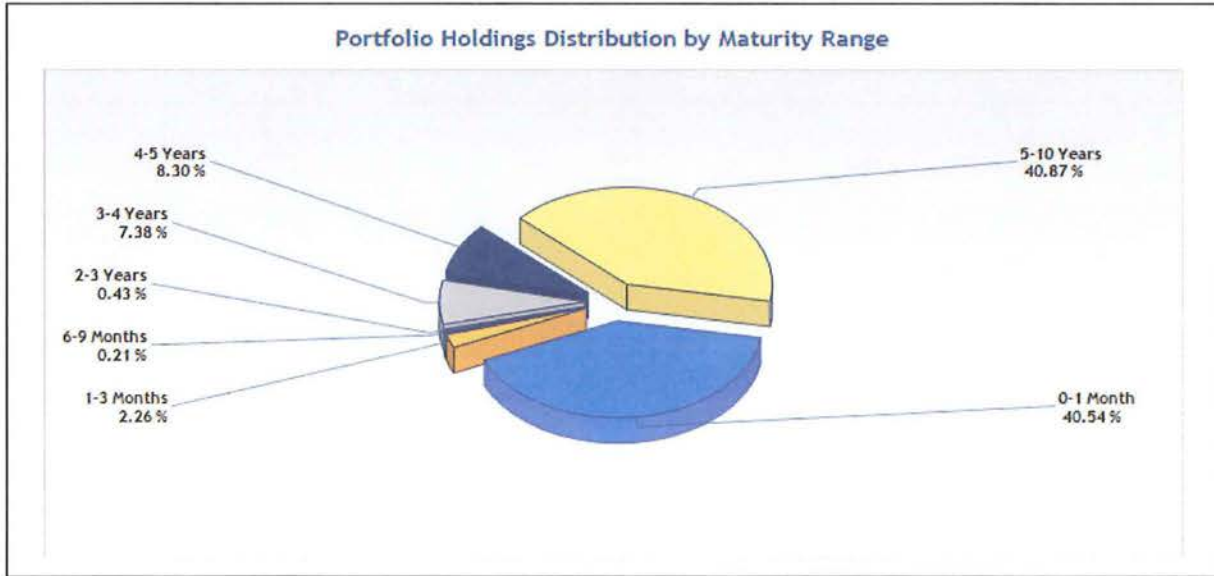
March 31, 2014



Description	YTM @ Cost	03/31/2014 Market Value	Investment Income - Market Value	% of Portfolio
Cash	0.00	0	0	0.00%
Certificate of Deposit	0.66	252,308	410	0.21%
Corporate Bonds	0.41	2,749,395	1,733	2.26%
LGIP	0.76	11,175,446	15,250	9.20%
Money Market	0.20	38,069,358	27,578	31.34%
Municipal Bonds	2.90	5,713,585	134,411	4.70%
US Agency	2.26	63,518,293	1,153,998	52.29%
<b>Total / Average</b>	<b>1.46</b>	<b>121,478,385</b>	<b>1,333,379</b>	<b>100.00%</b>

Investment Portfolio - Diversification, by Maturity Range

March 31, 2014



Description	YTM @ Cost	03/31/2014 Market Value	Days to Maturity	Investment Income - Market Value	% of Portfolio
* 0-1 Month	0.32	49,244,805	1	42,827.45	40.54%
1-3 Months	0.41	2,749,395	57	1,732.50	2.26%
6-9 Months	0.66	252,308	201	409.65	0.21%
2-3 Years	2.90	524,885	946	8,636.25	0.43%
3-4 Years	1.18	8,967,190	1288	56,845.00	7.39%
4-5 Years	2.18	10,086,680	1700	185,385.00	8.30%
5-10 Years	2.54	49,653,123	2445	1,037,542.80	40.87%
<b>Total / Average</b>	<b>1.46</b>	<b>121,478,385</b>	<b>1242</b>	<b>1,333,379</b>	<b>100.00%</b>

\* Includes Cash, Money Market & Local Government Investment Pools