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October 12, 2016

The Honorable Members of the Board of Supervisors
County of Solano County
675 Texas Street, Suite 6500
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Honorable Members of the Board:

It is my pleasure to present the quarterly report for the first quarter of FY2016/17.

State of the Treasury

The $863.6 million Treasury Pool is invested in a manner consistent with the balancing of credit, liquidity, and interest rate risks. Standard and Poor's continues to rate the investment pool AA+. Credit and liquidity risk are managed through diversification and a preference for more widely traded issuers. Liquidity risk is managed through the maintenance of cash and cash equivalents in the form of Money Market instruments, LAIF, securities maturing in six months or less, and other similarly liquid holdings. The current liquidity balance of the Treasury Pool is $330.7 million dollars which provides additional liquidity to make tax collection apportionment payments to the taxing agencies throughout the county later in the year.

Current Market Conditions Impacting the Treasury Pool

As anticipated, The Federal Reserve voted 7-3 to maintain federal funds rate at 0.25 % to 0.50 % at its last meeting on September 21, 2016. With the unemployment rate below 5%, which economists consider full employment, the debate among governors is how much lower it can go which is beneficial to those seeking employment without risking runaway inflation. Governors Brainard and Tarullo have said there is still room to allow the rate to fall further. Without consensus among the governors on this point it is unlikely they will do anything. The real Gross Domestic Product forecast by the FOMC for 2016 remains at 1.8 %, and the twelve Federal Reserve Districts report in the beige book report a modest to moderate pace of overall growth and consumer spending remains little changed.

The next FOMC decision will come on November 2, 2016. A 0.25% increase by the FOMC will equate to about $2mm increase in interest earnings annually for the Treasury Pool participants as funds are fully reinvested at the higher rates.

Expectations going forward

The Treasury Pool primarily purchases securities at the short end of the yield curve, defined as investments with maturities of five years or less, and as a result maintains 0.5 to 1.5 duration. Should the FOMC increase overnight rates further, the Treasury will have the opportunity to purchase securities with slightly higher yields, and available liquidity will be invested to take full advantage of higher yielding securities.

Ms. Yellen indicated in December that the FOMC intended to raise overnight rates in three equal amounts of 0.25% each during the course of this calendar year. Continued uncertainty and economic weakness may cause the FOMC to reconsider this plan. The Treasury will continue to monitor the FOMC for indications as to their future actions and deploy capital accordingly.

Respectfully Submitted,
CHARLES LOMELI
Treasurer – Tax Collector – County Clerk