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July 12, 2018

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 fourth quarter of FY2017/18.

State of the Treasury

The \$1.2 billion Treasurer's pool is managed in accordance with the tenets of California Government Code §53600.5 to provide for the safety of principal, adequate liquidity for all anticipated cash flow requirements, and a consistent rate of return commensurate with the established risk profile.

A careful examination of historical cash flow patterns shows the size of the Treasurer's pool declining in summer months as revenue from property tax collection is at a minimum while payrolls and general expenditures remain consistent. In addition, the recent influx of school bond proceeds is likely to result in significant outflows in the coming months as construction spending ratchets upward. In anticipation of this pattern, \$557 million is invested to mature within 6 months providing adequate liquidity for the pool participants.

Current Market Conditions Impacting the Treasury Pool

At the June meeting, the Federal Reserve Open Market Committee (FOMC) raised the Federal Funds rate to 2% from 1.75%. FOMC officials cited a very strong economy as reason for continuing increases in benchmark interest rates. The FOMC also made note of escalating trade tensions as a "risk" to economic growth, but they indicated the data as reported in the Beige Book has not been impacted by recent trade issues to date, and growth was boosted by tax cuts and increased government spending. According to FOMC Chairperson Jerome Powell, unemployment and inflation remain low, while business investment continues to grow at a strong rate. He also reported that recent rise in oil prices are likely to push inflation above 2% but that he expects it to be a transitory condition that will moderate over time. It should also be noted that the stated policy goal of reducing the Federal Reserve Bank's balance sheet will result in a continued reduction in the bank's balance sheet.

Treasury Managers monitor FOMC releases, and other data, to remain abreast of economic changes that may potentially impact the performance of the Treasurer's pool to ensure the portfolio is properly positioned on the yield curve to balance risk and return. A material portion of the monitored information from the FOMC can be found in the regional reports from the 12 Federal Reserve Districts that are compiled in Beige Book reports published 8 times a year.

Expectations going forward

The FOMC has announced it expects funds rates to continue to increase in 2018; therefore the market value of the portfolio will likely remain lower than the book value for the foreseeable future. This difference is recognized in the Treasury accounting as an unrealized mark to market loss.

However, as securities mature and the proceeds are reinvested, the funds are generally invested at higher rates of interest. The result is a decline in the unrealized mark to market loss and the Treasurer's pool produces more income for the participants. As previously reported, the pool will earn approximately \$2 million in interest earnings for each 25 basis point or 0.25% increase in rates.

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