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October 15, 2019

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 FY2019/20.

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.

The \$352.3 million currently held in cash and investments with six months or less left to maturity should provide adequate funding for all anticipated cash needs, while also affording the Treasury an opportunity to invest excess liquidity at market rates.

The treasury pool is maintained with a duration designed to stabilize yields and prevent rapid increases or decreases in earnings. The treasury pool is also diversified from a credit risk perspective by maintaining a mix of investments that includes 15.5% in cash and cash equivalents, 21.9% in US Treasuries, 28.8% in Government Sponsored Enterprises, 21.3% in US Corporations, and 6.4% in Municipals; with the balance of 6.1% held in a variety of assets including mutual funds, commercial paper, and other holdings allowable under §53600.5.

Current Market Conditions Impacting the Treasury Pool

Treasury managers monitor information provided by the Federal Reserve; its actions and information impact the interest rates at the short end of the curve where nearly most of the treasury investments are made.

On September 18th the Federal Open Market Committee (FOMC) announced a 25 basis point reduction to the federal funds rate which is now targeted at a range of 1.75 to 2.0%. The FOMC statement released on the 18th cites strong labor markets, economic activity rising at a moderate rate, and low unemployment rate. Chairman Powell described the move as providing insurance against risks threatening the economic outlook. In subsequent remarks, the Chairman said the central bank would again begin expanding its portfolio of government-backed securities but specifically said this move was not a resumption of quantitative easing. The chairman also continues to leave the door open to another interest rate cut in October.

The yield curve remains inverted, meaning that the short end of the curve is higher than the longer end. Money market instruments which are at the short end of the curve are paying higher interest rates than the 10-year bond. This condition is not normal and is expected to normalize in the future, meaning the short end will likely fall and the longer end will likely remain stable or rise.

Expectations going forward

Expectations for the next quarter are short term interest rates will be reduced 25 basis points during the quarter. If the anticipated reduction occurs, the market value of the securities in the portfolio will increase, and new investments will be made in a lower rate environment. Liquidity levels are anticipated to be stable.

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

Attachment A – Letter to the Board
Attachment B – Statement of Compliance
Attachment C – Investment Portfolio
Attachment D – Balance Sheet and Income Statement
Attachment E – Yield Curve