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TREASURER-TAX COLLECTOR-COUNTY CLERK



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July 13, 2015

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 FY2014/15.

State of the Treasury

The \$869 million Treasury Pool continues to be invested in a manner consistent with the balancing of credit, liquidity, and interest rate risks against the desire for a return on investment. 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 \$296.3 million dollars. At 34.1% of the total Treasury Pool, this level is elevated from what might be considered traditional levels. The deviation is intended to provide additional liquidity protection for the Treasury Pool in the face of growing market sentiment that the Federal Reserve may take action to increase interest rates.

Gross Interest Income generated by the Treasury Pool for the fiscal year was \$4.8 million dollars.

Current Market Conditions Impacting the Treasury Pool

Mindful that short term interest rates have the most impact on the Treasury pool, managers continue to monitor the actions of the Federal Reserve with regard to monetary policy and the data reflecting the health of the economy. Conditions at the end of the quarter remain largely unchanged from the beginning of the quarter. The Federal Reserve Open Market Committee (FOMC) met on June 16 and 17 followed by a press conference by the Chair Janet Yellen. The Federal Funds rate remains at 0 to 0.25 %, with Inflation continuing to run at a rate below target. Citing a disappointing first quarter, Gross Domestic Product (GDP) for 2015 has been revised down 0.5 to a range of 1.8 to 2.0 for the year.

The Chair indicated the FOMC remains “data dependent”, meaning the long expected increase in rates will continue to rely on the fundamental wellbeing of the economy. The Chair continues to emphasize the accommodative policy will follow for an extended period of time, meaning short term rates will remain well below historical levels for a considerable amount of time even in an increasing environment. The next FOMC announcement will be July 29, 2015.

Expectations going forward

In the current environment the Treasury Pool primarily purchases securities at short end of the yield curve and maintains 1.0 to 1.5 duration. The interest rate yield curve for securities at the short end of the curve remains unchanged from the prior quarter. Pool liquidity levels will remain elevated for the next two quarters to manage interest rate risk and improve the pools positive responsiveness to increases in the FOMC rates.

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