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TREASURER-TAX COLLECTOR-COUNTY CLERK

SOLANO COUNTY

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January 16, 2026

The Honorable Members of the Board of Supervisors
County of Solano
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 second quarter of FY2025/26.

State of the Treasury

The 2.1 billion Treasurer's pool is managed per 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 $900 million currently held in cash and investments with six months or less left to maturity should provide adequate funding for all anticipated cash needs of the portfolio participants.

The treasury pool is maintained with a duration designed to stabilize yields consistent with the risk profile established by the Treasurer. The treasury pool is also diversified from a credit risk perspective by maintaining a mix of investments that includes 63% in US Treasuries, 11% in Government Sponsored Enterprises 7% in Corporations, 3% in Municipals, 3% in Asset Backed Securities, and a balance of 13% held in a variety of assets including Commercial Paper, LAIF, shares of beneficial interest and other holdings allowable under §53601.

Current Market Conditions Impacting the Treasury Pool

Treasury managers monitor the information the Federal Reserve provides. The Fed's actions and information impact the interest rates at the short end of the yield curve, defined internally as cash to five-year final maturity on the curve, where nearly all the treasury pool investments are made. The Federal Open Market Committee (FOMC) is charged with maintaining full employment and stable prices.

The FOMC convened on December 9, 2025, and announced on December 10, 2025, a reduction in the federal funds rate at the upper and lower bounds of 3.5 percent and 3.75 percent, respectively. The FOMC statement released with the announcement indicated job gains have slowed this year and the unemployment rate has edged up through September. More recent indicators are consistent with these developments. Inflation has moved up since earlier in the year and remains somewhat elevated. The statement also said the downside risks to employment rose in recent months. The committee is firmly committed to supporting maximum employment and returning inflation to its 2 percent objective.

The October Beige Book consolidated report indicated that spending rose modestly, and economic activity expanded at a slight to modest pace in eight districts, while three districts saw no change, and one reported a decline.

The FOMC is scheduled to make its following announcement on the funds rates on January 28, 2026.

Expectations going forward

Given the FOMC statement, data provided in the Beige Book Report, employment data, the Consumer Price Index (CPI), and the Producer Price Index (PPI), treasury managers, after consulting External Investment Advisors and their Economists, expect interest rates on the short end of the interest rate curve to be stable in the coming quarter.

Interest earned and apportioned to treasury pool participants will decline slightly in the coming quarter. Due to decreases in the federal funds rate, new investments made at the short end of the curve will earn less interest, and the interest earned and apportioned to pool participants will begin to decline.

Respectfully Submitted,

CHARLES LOMELI
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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
Attachment F – PARS 115 Report