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TREASURER-TAX COLLECTOR-COUNTY CLERK



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April 22, 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 third quarter of FY2018/19.

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 \$732.3 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 higher rates.

The treasury pool maintains 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 12.1% in cash and cash equivalents, 21.4% in US Treasuries, 37.7% in Government Sponsored Enterprises, 13.8% in US Corporations, and 10.5% in Municipals; with the balance of 4.5% held in a variety of assets including mutual funds, supra-nationals, commercial paper, certificates of deposit, and other holdings allowable under §53600.5.

Current Market Conditions Impacting the Treasury Pool

At the March meeting, the Federal Open Market Committee (FOMC) unanimously voted to maintain the Federal Funds rate at 2.5% citing continued strong employment data, moderate inflation and solid economic activity. This is a significant change from the December meeting when the committee signaled additional rate increases in 2019 which would be data dependent. In the minutes of the meeting, a moderation of business fixed investment and a movement lower in market-based measures of inflation in recent months were cited as reasons for the shift in direction. The statement reported that sustained expansion of economic activity, strong labor market conditions and inflation near the committee's 2% objective as most likely outcomes, and therefore the committee will be patient as it determines what future adjustment to the target range for federal funds rate may be appropriate to support these outcomes.

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 changed its forecast for the coming year since the last report from continued rate increase in 2019 to a “patient” position, or fewer or no increases; therefore, the market value of the portfolio will likely stabilize or increase the book value of the portfolio in the near future. Additionally, the interest earning on the investment pool are anticipated to stabilize accordingly. The weighted average yield on investments maturing in the next six months is 1.8% with a reasonable replacement yield for projection purposes of 2.3%.

Respectfully Submitted,
CHARLES LOMELI
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