

**TREASURER-TAX COLLECTOR-COUNTY CLERK**

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October 21, 2024

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 first quarter of FY2024/25.

**State of the Treasury**

The \$1.95 billion Treasurer’s pool is managed per the tenets of California Government Code §53600.5 to provide for the safety of the principal, adequate liquidity for all anticipated cash flow requirements, and a consistent rate of return commensurate with the established risk profile. The \$639 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 31% in US Treasuries, 45% in Government Sponsored Enterprises, 6% in US Corporations, 1% in Asset Backed, and 4% in Municipals; with the balance of 13% held in a variety of assets including LAIF, commercial paper, 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; its actions and information impact the interest rates at the short end of the yield curve, defined as cash to five-year final maturity, where nearly all the treasury pool investments are made. Due to rising inflation in the economy that began many months ago, the Federal Open Market Committee (FOMC), which is charged with maintaining full employment and stable prices, began a campaign to raise interest rates incrementally starting in March of 2022 to reduce economic growth and cause inflation to fall. At its last meeting, the FOMC indicated that economic data reflected inflation on a sustained downward path to the stated goal and cut the funds rate.

The FOMC convened on September 17, 2024, and announced on September 18, 2024, that the fund's rate would be reduced 50 basis points to 5 percent upper bounds and 4.75 percent lower bounds. The FOMC statement released with the announcement indicated economic activity expanded at a solid pace, the unemployment rate remains low, and inflation made further progress toward the Committee’s 2 percent objective. The statement also said the Committee would continue reducing its holdings of Treasury securities, agency debt, and agency mortgage-backed securities.

The FOMC is scheduled to make its next announcement on funds rates on November 7, 2024.

**Expectations going forward**

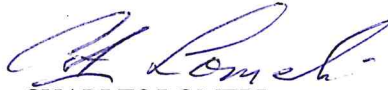
Given the FOMC statement and data provided in the Beige Book Report, employment data, and CPI data, treasury managers expect interest rates on the short end of the interest rate curve to be lower in the coming quarter.

As investments in the pool mature and are reinvested, the yield on newly invested funds is expected to be slightly lower. Interest earned and apportioned to treasury pool participants will be stable in the coming quarter; however, as the FOMC continues to lower the Funds Rate, the apportioned pool rate will begin falling.

**Other Matters**

As part of the continuing reorganization in the treasury, the investment accounting system is in the process of being transitioned to Chandler Asset Management's Clear Water accounting system in the coming quarters. This arrangement provides an automated data transfer between the county trustee, U.S. Bank, and the Clearwater accounting platform, eliminating the risk for human error in security accounting, reporting, and compliance. Additionally, the credit portion of the portfolio, representing about 20 percent of the total portfolio, is in the process of being transferred to Chandler's portfolio management team for active management. This arrangement provides enhanced credit analysis and diversification for this small portion of the overall treasury portfolio.

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
- Attachment F – PARS 115 Report