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January 21, 2022

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 second quarter of FY2021/22.

### **State of the Treasury**

The \$1.7 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 \$729 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 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 12.5% in cash and cash equivalents, 38.2% in US Treasuries, 33% in Government Sponsored Enterprises, 4.5% in US Corporations, 7.2% in Certificates of Deposit, and 2.6% in Municipals; with the balance of 2.0% 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 all the treasury pool investments are made.

In December, the Federal Open Market Committee met and on the 15<sup>th</sup> released a statement wherein they announced a significant acceleration in the reduction of quantitative easing considering accelerated inflation developments.

The Bureau of Labor Statistics reported on January 12<sup>th</sup>, 2022 that Consumer Price Index for all urban consumers (CPI-U) increased 0.5% in December on a seasonally adjusted basis after rising 0.8% in November. Over the last 12 months, all the items index increased 7% before seasonal adjustment. This represents the largest 12-month increase since the period ending June 1982. The FOMC statement eliminated the word transitory in relation to increased inflation indicating higher inflation will require FOMC action sooner than anticipated. The quantitative easing program will be terminated prior to an increase of the federal funds rate which is currently at 0 -.25%. Given this announcement, the easing program will be ended in the spring, and it is anticipated the federal funds rate will be increased shortly thereafter.

The January 12 Beige book reported that employment grew modestly, and that tightness in labor markets drove robust wage growth nationwide with some districts highlighting additional growth in labor costs. Economic activity across the districts expanded at a modest pace in the final weeks of 2021.

## Expectations going forward

Given the FOMC statement and data provided in the Beige Book Report, treasury managers expect interest rates on the short end of the interest rate curve to remain close to zero for the next quarter.

The accelerated reductions in quantitative easing that were announced on the December 15 statement, indicate federal funds rate interest rates will begin moving higher with the first increase in federal funds rates in the coming quarter or shortly thereafter. Treasury managers will carefully monitor inflation statistics as continued increases in inflation may result in the FOMC taking additional actions. These actions could be increasing the pace of reducing assets or an earlier than stated increase in the funds rate. As investments in the pool mature and are reinvested, the yield on newly invested funds will yield higher rates of return when the funds rate is increased. When that increase happens, the pool earnings will be more than in previous quarters.

Credit quality of corporate securities will continue to be monitored, and investments will continue to be diversified to mitigate risk. Given the shape of the yield curve, elevated levels of liquidity will be maintained in the coming quarter.

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