CHARLES LOMELI
Treasurer-Tax Collector-County Clerk
calomeli@solanocounty.com
MICHAEL COOPER
Assistant Treasurer-Tax Collector-County Clerk
mrcooper@solanocounty.com

ttccc@solanocounty.com
www.solanocounty.com

TREASURER-TAX COLLECTOR-COUNTY CLERK

SOLANO COUNTY

LORI BUTLER-SLAPPY
Tax Collections Manager
leslappy@solanocounty.com
DENISE TOLSON
County Clerk Manager
dmtolson@solanocounty.com

675 Texas Street, Suite 1900
Fairfield, CA 94533-6342
(707) 784-7485
Treasurer (707) 784-6295
Fax (707) 784-6311

July 18, 2017

The Honorable Members of the Board of Supervisors
County of Solano County
675 Texas Street, Suite 6500
Fairfield CA 94533

Honorable Members of the Board:

It is my pleasure to present the quarterly report for the fourth quarter of FY2016/17.

State of the Treasury

Management of the Treasury Pool is built around adherence to the SLY principal of Safety, Liquidity, and Yield. To achieve these goals, funds are invested in a manner that balances credit, liquidity, and interest rate risks while providing participants with a stable return on investment.

Credit risk is managed through diversification and a preference for government backed debt along with debt from select highly rated corporations. Liquidity and interest rate risk are managed using shorter maturity investments, multiple overnight liquidity sources, and a targeting of pool duration to match budget cycles.

As a result of these efforts, Standard and Poor's rates the investment pool AAf, S1 based on a monthly review of all Treasury holdings.

The balance of the Treasury Pool is $1.2 billion.

Current Market Conditions Impacting the Treasury Pool

The Federal Open Market Committee (FOMC) voted to increase the federal funds rates from 1.00 to 1.25% at its last meeting on June 14th, 2017, its second increase this year, and indicated additional increases are likely before the end of the calendar year. Each 0.25% increase by the FOMC equates to approximately $2 million in additional interest earnings annually for the Treasury Pool participants as funds are invested at the higher rates.

In addition to increasing the interest rate for federal funds, on July 12, 2017, the Federal Reserve Board Chairwoman Janet Yellen said the Fed would begin reducing the size of its balance sheet by selling or not replacing at maturity, various Treasury, Federal Agency, and Mortgage Backed debt it holds. The Fed acquired a total of $4.5 trillion in securities during the financial crisis to reduce interest rates and thereby borrowing costs. It is likely that this reduction in the balance sheet will contribute to higher long term interest rates in addition to the announced short term rate increases. The Chairwoman also told lawmakers that the strength of the economy will warrant steady increases in federal funds interest rates.

The Fed has projected that the U.S. economy will grow roughly 1.8% of GDP over the next two years.

While the FOMC has acted to increase the Fed Funds overnight borrowing rate, they have also continued to hold longer maturity Federal Agency and Federal Agency backed mortgage-backed securities to help control mortgage borrowing costs.

Expectations going forward

The Treasury Pool primarily purchases securities at the short end of the yield curve, defined as investments with maturities of five years or less, and thus maintains a 0.5 to 1.5 duration. This makes the Treasury Pool more sensitive to the FOMC short term interest rate increases than the reduction of the balance sheet. As stated above, increased rates will have the positive benefit of increasing the yield on the Treasury Pool.

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