

**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

October 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 first quarter of FY2017/18.

### **State of the Treasury**

As is their practice for evaluating investment pools rated by them, Standard and Poor's (S&P) analysts visited the Treasury in the quarter to evaluate the investment portfolio with regard to investment policies, operating procedures, contingency plans, and the strength of Treasury Managers.

Based upon revised criteria provided by them, I am happy to report that S&P continues to rate the investment pool AAf, S1. The Investment Pool continues to be invested in a manner consistent with the balancing of credit, liquidity, and interest rate risks and maintaining sufficient liquidity to meet the demands of the pool participants. Credit and liquidity risk are managed through diversification and a preference for more widely traded issuers and other liquidity options. The current balance of the Treasury Pool is \$1,044 million.

### **Current Market Conditions Impacting the Treasury Pool**

The economy continued to expand in the quarter as reported by all 12 districts in the most recent Beige Book report for July and August. The Beige Book is a Federal Reserve System publication about current economic conditions across the 12 Federal Reserve Districts. US factory activity surged to a more than 13 years high in September, gains in raw material prices strengthened in the quarter. State and local government construction projects continue to expand and increased 1.1% in August.

The next Federal Open Market Committee (FOMC) announcement is expected on November 1, it is expected by most economists surveyed and recent comments by the Chairwoman of the FOMC that federal funds rates will be increased in December. Funds rate is currently 1.00 to 1.25%, and it is anticipated the rate will increase by 0.25%. Additionally, the Fed had announced the reduction of the \$4.5 trillion balance sheet in October which is likely to cause upward pressure on interest rates.

### **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 as a result maintains 0.5 to 1.5 duration. This makes the Investment Pool more sensitive to the FOMC interest rate increases than the reduction of the balance sheet. As the FOMC increases overnight rates further, the Treasury

will have the opportunity to purchase securities with slightly higher yields, and available liquidity will be invested to take full advantage of higher yielding securities.

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