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July 11, 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 fourth quarter of FY2018/19.

The $1.4 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 $569.9 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.

To mitigate various risks identified below, the treasury pool is maintained with a duration designed to stabilize yields. 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, 21.9% in US Treasuries, 29.8% in Government Sponsored Enterprises, 22.1% in US Corporations, and 8.8% in Municipals; with the balance of 5.3% 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 closely follow the activities and 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 investments are made.

The National Summary of the Beige Book June 5 reports, "the outlook for the coming months was solidly positive but modest, with little variation among reporting Districts". The Beige Book is a Federal Reserve System publication about current economic conditions across the 12 Federal Reserve Districts. The next meeting of the FOMC is July 31, 2019.

The yield curve remains inverted (Attachment E), meaning that the short end of the curve is higher than the longer end. Money market instruments which are at the short end of the curve are paying higher interest rates than the 10-year bond. This condition is not normal and is expected to normalize in the future, meaning the short end will likely fall and the longer end will likely remain stable or rise.

Expectations going forward

Expectations for the next quarter are status quo for treasury operations, short term interest rates are anticipated to be stable with possibly a small reduction in the federal funds rate during the quarter. If a cut occurs, the market value of the securities in the portfolio will increase, and new investments will be made in a lower rate environment. Liquidity levels are anticipated to be stable.

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