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October 20, 2020

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 first quarter of FY2020/21.

State of the Treasury

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 \$368.4 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 11.7% in cash and cash equivalents, 17.9% in US Treasuries, 47.9% in Government Sponsored Enterprises, 7.3% in US Corporations and 3.3% in Municipals; with the balance of 11.9% 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 investments are made.

In the September 16, 2020 Federal Open Market Committee (FOMC) statement, the committee kept fund rates at .25 upper bound and .00 lower bound.

The September 2, 2020 Beige Book report of the 12 federal districts report economic activity and employment has improved in the quarter. However, both remain well below where they were prior to COVID. Manufacturing and consumer spending continued to increase but the pace of growth slowed. Residential construction was strong, and real estate sales were notably higher with prices continuing to rise in conjunction with demand, and a shortage of inventory. The banking sector reported overall loan demand increased slightly. On the other hand, commercial construction was down widely, and commercial real estate remained in contraction. The districts also reported continuing uncertainty and volatility related to the pandemic. The committee expects to maintain an accommodative stance until its stated goals have been achieved. The committees stated goals are inflation moderately over 2% for some time, and maximum employment.

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. As investments in the pool mature and are reinvested, the yield on newly invested funds will be substantially lower, and the pool earnings will be less than in previous quarters.

Credit quality of corporate securities will continue to be monitored more closely during this crisis, and investments will continue to be diversified to mitigate risk. Given the shape of the yield curve, liquidity will be increased 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