

# County of Yolo Financial Oversight Committee Charter



REVISED  
May 08, 2018

## Article I

### Introduction

The government representatives of Yolo County are held publicly accountable for the proper utilization, custody and distribution of resources as the assigned fiscal agents of County funds by taxpayers and other stakeholders. This fiscal accountability is demonstrated through the monitoring and assurance of good systems of control, budgetary compliance, accurate and timely financial reporting, continuous monitoring and oversight reviews, and timely follow-up on audit findings and recommendations.

Measure H was passed by the county voters in 2012 to consolidate the elected offices of Auditor, Controller, Treasurer, Tax Collector and other financial planning functions into one county department under the direction of an appointed Chief Financial Officer (CFO). Elected offices and separation of duties and control functions provided assurance of accountability which now need to be maintained through other means. With this purpose in mind, and in accordance with Measure H, the Board of Supervisors established the Yolo County Financial Oversight Committee (FOC). The FOC replaces the existing Treasury Oversight Committee, performing those duties pursuant to California Government Code Section 27130, and the existing Audit Committee, thereby providing leadership with independence over continuous monitoring, audits, and reviews of the County's business activity, processes and transactions. The FOC shall not be designated the treasury oversight committee under Government Code section 27131. Additionally, the FOC ensures oversight for the monitoring and review of the property tax distribution process, and the accountability and transparency over budget compliance.

## Article II

### Authority

The FOC has the authority to provide oversight on treasury operations, leadership and independence over the monitoring, review, and audit of the County's business activities, and ensure accountability and transparency over the budgetary and tax distribution process. The FOC performs all of its duties in an advisory role to the Board of Supervisors and its chairperson has a direct communication with the Board of Supervisors. The FOC shall have no direct authority over the CFO or any County officer or staff regarding County financial operations. However, the FOC will have oversight over the Internal Audit Office as necessary. The Internal Audit Office will report to the CFO administratively. The FOC shall not be designated the treasury oversight committee under Government Code section 27131.

## Article III

### Purpose

The purpose of the FOC is to provide oversight on treasury operations, deliver leadership and independence over the monitoring, review and audit of the County's business activities; and provide oversight that helps to further ensure accountability and transparency over the budgetary and tax distribution processes to further demonstrate good stewardship of public resources.

## Article IV

### Membership

#### *A. Membership Categories*

##### 1. Voting Members

- a. Two representatives of the Board of Supervisors
- b. One representative of a city in Yolo County
- c. One representative of the Yolo County Office of Education
- d. One representative of the special districts in the County
- e. Two members of the public

The two representatives of the Board of Supervisors are the members who also make-up the Audit and Finance Subcommittee of the Board.

Members shall be nominated by the CFO, County Administrator or Board members and confirmed by the Board of Supervisors. All members will serve three-year terms. Members may serve additional three-year terms at the pleasure of the Board of Supervisors.

Each committee member is to be both independent and financially literate. At least one member shall have financial expertise. Independent in this context means devoid of any potential conflict of interest, such as described in Section VIII.

##### 2. Non-voting Members

The County Administrator and CFO, or their designees, participate on the FOC in an advisory capacity.

#### *B. Power and Duties of Members and Officers*

1. The Committee may not direct individual investment decisions, tax allocation or budgetary decisions, nor impinge on the day-to-day operations of the Department of Financial Services.
2. A Chair and Vice Chair shall initially be elected for a one-year term, which may be extended by a favorable vote of a majority of members.
3. At the last regular meeting of the calendar year, the Committee will select a Chair and Vice Chair to serve for the following calendar year.
4. The Chair's duties include presiding over all Committee meetings, responding to members' requests for information, signing communications on behalf of the Committee, and representing the Committee before the Board of Supervisors, subject to the approval of the Committee members.
5. The Chair shall preside over the meetings. In the absence of the Chair, the Vice Chair shall preside. In the event that neither is available, the Chair shall select a Chair pro-tem to serve in their absence.
6. The Chair shall preserve order at the meetings.

#### *C. Resignation*

A resignation from a Committee member may be submitted at any time by giving written notice to the CFO.

#### *D. Removal*

A member of the FOC may be removed for cause from their post by action of the Board of Supervisors. The FOC may, by two-thirds vote, recommend to the Board that a member be removed. At a public meeting within 60 days of the FOC's recommendation, the Board shall decide, in its sole discretion, whether or not to terminate the member.

#### *E. Filling Vacancies*

Vacancies occurring during the terms of appointment shall be filled as soon as practicable, as determined by the category of the Committee member position that is vacant. The appointment shall begin a 3-year term from the date of the appointment. The CFO shall seek recommendations from Committee members and any other appropriate sources to fill vacancies occurring on the Committee.

#### *F. Compensation*

FOC members serve without compensation.

#### *G. Training*

The CFO shall provide sufficient training to Committee members during the regular meetings or at other times and locations as necessary.

### Article V

#### Responsibilities and Duties

##### *A. General*

The primary responsibility of the FOC is to help ensure the highest level of public accountability and transparency within Yolo County financial systems, by serving as an advisory committee to the Yolo County Board of Supervisors. This advisory responsibility is fulfilled through recommendations to the Board of Supervisors regarding the areas of responsibilities described in this section. This responsibility includes advising the Board on recruitment, hiring, and termination of the CFO, and providing regular updates on Committee activities to the Board of Supervisors.

Advisory responsibilities preclude the Committee and its members from participating in decision making or influencing decisions concerning the operations of the Department of Financial Services.

##### *B. Financial and Audit Oversight*

In addition to the general responsibilities listed above the FOC is specifically empowered to recommend, and oversee the work of, the public accounting firm employed by the County to perform the annual audit and Single Audit. To fulfill this duty, Committee members may:

1. Review significant accounting and financial reporting issues that affect County financial statements, including recent state laws, professional and regulatory pronouncements;
2. Participate in the selection of the independent audit firm which will conduct the annual financial audit and Single Audit, in accordance with state laws and auditing standards;
3. Review the scope and timing of the annual financial Audit and Single Audit;
4. Meet with the independent auditors at their request;

5. Review the results of the annual financial audit and Single Audit;
6. Review the results and adequacy of follow-up actions necessary on audits conducted by any external auditors or regulatory auditors on any of the County's activities, programs, transactions, or functions;
7. Review the results of the countywide risk assessments and consider the effectiveness of the internal control system to mitigate identified risks;
8. In concert with the CFO, review the scope and effectiveness of internal audit activity , approve the Internal Audit Charter, participate in the appointment and removal of the Internal Audit Manager, and participation in the performance evaluation of the Internal Audit Manager; and
9. Ensure that timely monitoring, and the resolution of audit findings and recommendations are performed.

### *C. Treasury Oversight*

In relation to its oversight responsibilities over the county treasury, members of the committee shall:

1. Annually review and ensure timely monitoring of the Yolo County Investment Policy proposed by the CFO is performed;
2. Cause an annual audit to determine the county treasurer's compliance with the Investment Policy and relevant codes;
3. Review audits performed on treasury operations; and
4. Review the quarterly investment performance of the treasurer's pool.

### *D. Budget Accountability Oversight*

Committee members ensure that timely reviews of internal controls are performed to further support accountability and transparency over the budget, and in this regard may:

1. Review the adopted budget and any subsequent amendments to help ensure compliance with the County Budget Act (California Government Code) and the County Budget Guide issued by the State Controller;
2. Review budgetary monitor reports; and
3. Review budget to actual reconciliation at year-end.

### *E. Tax Allocation Oversight*

As the acting oversight authority over property tax allocation matters, member may review the internal controls over the property tax distribution activities, transactions, and processes to further ensure compliance with the Revenue and Taxation Code, and with state regulations in an equitable manner with regard to all taxing entities.

## Article VI

### Meetings

#### *A. Attendance*

All members are expected to attend all regularly scheduled committee meetings. A call or other communication to the CFO prior to a regularly scheduled meeting or anticipating an absence in advance notice from a meeting, would constitute an excused absence.

## *B. Meetings*

1. Regular meetings of the FOC shall occur at least four times each fiscal year within 40 days of each quarter's end.
  - a. The Committee must also meet twice annually with the independent auditors, in the beginning and at the conclusion of each audit. These meetings may be scheduled separately or occur as part of the quarterly meetings.
2. Special meetings may be called by the Chair or at the written request of two or more Committee members.
  - a. All Committee members shall be provided with a written agenda 24 hours in advance of the meeting and the agenda shall be posted in appropriate locations. The agenda shall state the time, place, and business to be transacted at the meeting, and no other business shall be considered at the special meeting.

## *C. Convening Meetings*

The meeting agenda shall be posted and delivered to the Committee at least 72 hours in advance. Only items included in the agenda may be discussed and considered. The Committee may discuss a non-agenda item at a regular meeting if pursuant to Government Code Section 54954.2 (b) (2), upon determination by a two-thirds vote of the members, or, if less than two-thirds of the members are present, a unanimous vote of those members present, that there is a need to take immediate action and that the need for action came to the attention of the Committee subsequent to the agenda being posted.

## *D. Open Meetings*

All Committee meetings are open to the public and are subject to the Ralph M. Brown Act (Title 5, Division 2, Part 1, Chapter 9, commencing with Section 54950). The public will be given the opportunity to be heard and make comments at the end of each meeting open to the public.

## *E. Quorum*

A quorum is no less than a simple majority of the total current voting membership. Action may be taken by a majority of those present and voting and by no less than a majority of the quorum.

## *F. Staff Support*

1. The CFO or designee shall cause minutes of all meetings to be recorded in sufficient detail to allow adequate follow-up.
2. The CFO or designee shall work with the Chair to develop the meeting agendas.
3. As required and to the extent possible, county staff will provide technical and administrative support to the Committee.

## Article VII

### Parliamentary Procedure

The committee meetings shall be governed by Roberts' Rules of Order, the Modern Edition, and the Chair shall decide questions of order (unless overridden by a simple majority of the members present) consistent with such rules.

## Article VIII

### Conflict of Interest

- A.* Each Committee member will be required to complete and file an "Application for Nomination and Affidavit of Understanding" with the CFO in a timely manner. Failure to do so may invalidate Committee membership. Further, if any Committee member is found in breach of the requirements or in violation of the understandings, they must resign from this Committee.
- B.* A Committee member shall disclose to the FOC at a regular meeting any activities that directly or indirectly raised money for: a candidate for local treasurer; or a member of the governing board of any local agency that has deposited fund in the county treasury while a member of the committee. Raising money includes soliciting, receiving, or controlling campaign fund of a candidate, but not the member's individual campaign contributions or non-financial support. This condition does not apply to a member raising money for his or her own campaign.
- C.* A committee member shall disclose to the FOC at a regular meeting any contributions, in the previous three years or during the period that employee is a member of the FOC, by any employer to: the campaign of a candidate for the office of local treasurer; or to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury.
- D.* The member of the Committee may not secure employment with, or be employed by, bond underwriters, bond counsel, security brokerages or dealers, or with financial services firms with whom the county treasurer is doing business during the period that the person is a member of the Committee or for one year after leaving the Committee. This subsection only applies to employment or soliciting employment, and not other relationships with such companies with whom the County is doing business.
- E.* The member of the Committee shall disclose to the FOC any honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other persons who conduct business with the County Treasurer while a member of the Committee. All members shall also comply with requirements of the Political Reform Act or any other law or regulation regarding to receipt and disclosure of financial benefits and conflicts.
- F.* Committee members who had any supervisory responsibility over any program under audit and that is the subject of discussion shall recuse themselves during that part of the discussion.

## Article IX

### Amendment of Committee Charter

Proposed amendments to the committee charter must be delivered at least 72 hours in advance of a regular or special meeting to every member. Amendments require a simple majority vote of those present and voting for passage.

## Article X

### Adoption, Approval, Acknowledgements, and Acceptance of the Charter

The signature below signify adoption by the Chair of the Committee, approval of the Board of Supervisors, acknowledgement by Committee Members, and acceptance by the Chief Financial Officer.

AYES:

NOES:

ABSENT:

ABSTAIN:

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Matt Rexroad, Chair  
Yolo County Board of Supervisors

ATTEST: Julie Dachtler, Deputy Clerk, Board of Supervisors

# YOLO COUNTY FINANCIAL OVERSIGHT COMMITTEE

## MINUTES OF MEETING FEBRUARY 06, 2018

County Administration Building, Atrium Training Room  
625 Court Street  
Woodland, CA 95695

Members present: Matt Rexroad (Chair), Duane Chamberlain (Supervisor), Richard Horan (Public), Tamara Ethier (Education), Patrick Blacklock (CAO), Kyle Lang (Special District), Howard Newens (CFO).

Members excused: Eric Will (Public), and Paul Navazio (Cities).

Others present: Mary Khoshmashrab (Internal Audit Manager), Ryan Pistoichini (Procurement Manager), Josh Iverson (Accounting Manager), Edward Burnham (Treasury Manager), Sarah Meacham (PFM), and David Showalter (VTD).

Recorded by Mary Khoshmashrab.

- 1) Duane Chamberlain called the meeting to order at 3:05 PM. Five voting members were present. Two voting member and 2 nonvoting members were absent: Paul Navazio and Eric Will; a quorum was formed.
- 2) The agenda was reviewed and approved (Duane/Rich).
- 3) Introductions- Ryan Pistoichini, Procurement Manager was introduced.
- 4) Public comments: There were no public comments.
- 5) Follow-up items: FOC reappointments and staggering terms. Howard, deferred the discussion for Agenda item #7 on the agenda that discusses the FOC Charter and includes this matter.
- 6) Approval of the 11/11/17 meeting minutes was accepted and approved (Rich/Kyle).
- 7) Public Member Request: Rich Horan – Discussion and actions moving forward on the following matters (a) review process of ALL Internal Audit reports; (b) adherence and compliance with the Financial Oversight Charter, including membership terms:
  - a) Rich shared his concerns around the PA/PG Report and the inconsistent handing of the report compared to prior reports. Though he was satisfied after he had meant with the IA auditors about how the County would move forward to ensure matters were being addressed and corrected. His concern was the appearance of sweeping the matter under the rug and how that might look to the community and the impact it may have on the FOC members who are there as part of the County's oversight authority.
  - b) Rich shared his concerns that the FOC members are not in compliance with some of the sections and the responsibilities that are stated in the FOC Charter, including matters around agenda item 5. The Committee discussed some of the issues such as tax distribution and having a standing date when that would be discussed. Members agreed that May would have a standing agenda item

for updates on tax. Members discussed the process and timing of appointment of a new chair and co-chair, who those individual can be, and the term of an appointment from inception and term matters when a vacancy of a member that leaves a standing term is vacated. The charter appears to be in conflict around this area. Also, discussion on staggering terms, and how they can ensure that members do not vacate at the same time and leave the Committee without any experienced members to keep the Committee flowing as intended. Members agreed to assign a detailed review to three members to have offline and bring recommendations for revision back to the FOC members for consideration. Mary will set up a meeting with Matt, Tamera, and Rich for further discussion. Howard invited the present members to apply to serve another term and requested that Mary send them the application package (Paul, Kyle, Eric, and Rich).

- 8) Independent Auditor's (VTD) reporting on (a) the independent audit of County financial statements for fiscal year ended 6/30/17; update on the Single Audit; and (b) status update on the audit of the Treasury for quarter 6/30/2017 (provided) and 9/30/17 (discussion):
  - a) Dave walked the members through the communication, reporting, roles and responsibilities, auditor's opinion and results of the CAFR for period ending 6/30/17. Dave shared that there was an accounting estimate misstatement that the auditors recommended be corrected. Dave explained that management determined that the correction would not make a material impact on the statements and therefore, no adjustment would be made. Dave shared that the decision would not change the opinion because it was an estimation that would not materially impact the county's financial statement as a whole. Matt asked why the correction was not made. Howard shared that it was an estimation and not material and therefore the effort to make the changes and the impact on the workload would have outweighed the benefit since the amount was immaterial and only an estimate. The amount would also be captured in the next year. Further, Dave shared that there were two entities, First 5, and Yolo Housing that the auditor's include the opinion of their independent auditors in the report, but that they do not audit or issue an opinion on these entities. Dave explained that the reason they must be discretely included is because the board has some control over the appoint of the Executive Director and or a Board member sits on their board. Rich asked if there was risk around having other auditors perform their audits. Dave explained that the other auditor's express an opinion, the County is not liable for their liabilities, and though the County's auditors do not express an opinion, they do review the audit, and the auditor's to ensure that they are following professional standards, etc. prior to them relying on their work. Davie and Howard pointed out that the report was started in November and completed in mid-December before the required date of 12/31. Dave reported that there were no issues during the audit and the process went smoothly. Howard pointed out that due to both the auditors and DFS management's efforts, the report was completed early with time to spare, for the first time in 9 years. Dave shared that GFOA awards Counties for completing the CAFR timely and that the County would be submitting the CAFR for an award. Rich pointed out that before submitting the report, there was language that stated that the County's overall liabilities had decreased when in fact, they had increased, and suggested it be corrected prior to submitting the report to GFOA.
  - b) Dave provided an update on the Single Audit. Dave informed the members that the review has already started and federal grants have been selected for review, and that they believe the review should run smoothly and be completed on time or early (March 2018). Once completed the Single Audit results and a Management letter will come to the FOC.
  - c) Dave provided the result of the 6/30/2017 AUP review for Treasury. Dave explained the review and results of the review. Dave explained that procedure number 1 is performed by the Division of Internal Audit (DIA). Dave explained that the external auditor reviews the DIA work papers and that there were no findings related to procedure number 1 that was performed by the DIA. Dave did not discuss or provide an update on the 9/30/2017 Treasury AUP.

Rich requested that some training be provided around General Reserve limits and governing requirements and standards. Howard shared that a training could be developed to provide some understanding.

- 9) Review Treasury and Cash Investments for Fourth Quarter 2017 (PFM). Sarah economic update and overview of the investment portfolio performance for the Fourth Quarter. The presentation focused primarily on the impact and events of 2017 which included the results of economic growth, jobs created, and consumer confidence. Sarah shared that the labor market continues to strengthen, and Feds consider the rate to be at full employment. PFM's strategy remains neutral and continues to perform above the benchmark. The objective remains as safety first, liquidity to ensure sufficient cash flow for continued operations, and return on investment is designed with the objective of attaining a market rate of return that is consistent with the constraints imposed by its safety objective and cash flow consideration. Sarah shared that the County's continues to generate strong returns compared to the treasury benchmark. Duane shared his continued desire to see the County seek better returns; Sarah shared that the County must follow governing codes that sometimes prevents them from seeking other investment types that would create more risk.
- 10) Update on internal audit activities- Mary provided an update on the CAO and HHSa risk assessment. The CAO is in the process of completing their online risk surveys. HHSa is in the process of scheduling their staff training dates for the COSO training that is given as part of the process. Mary provided an update on the implementation review and updated changes on Infor. The report will be issued to the FOC by the May's meeting. Mary noted there have been delays as a result of other projects that take priority; Mary provided an update on Elections CAP that they have addressed all the recommendations and the CAP has been closed. Mary provided an update on the Public Guardian and Administrator review and that the CAPs have all been received. Rich and Duane asked what are the next steps, how will the county ensure that things will get fixed. Mary explained that the CAPs provided give step by step plans on what actions the departments intend to take to correct the issues and implement the recommendation. Mary shared that they have already been diligent on moving forward and correcting the issues. Mary shared that a full audit is not done every time, but every 6 months the departments must submit updates on actions taken to the DIA and the auditor follow-up and vouch that actions have been taken. Mary explained that this process will happened every 6 months until all actions are completed. Mary shared that new projects included a AUP's for system controls on Department of Probation's juvenile detention center and the Department of Ag's Cannabis program.
- 11) An Update was provided on the FOC moving to Agenda Quick. Mary shared that the FOC was set up and ready to go on Agenda Quick. The website to house the FOC is still in the process of being setup and planned for the May's FOC meeting to be processed through Agenda Quick.
- 12) Members confirmed the next meeting date for May 8, 2018 at 3PM in the CAO's conference room.
- 13) Meeting Adjourned at 4:23 PM.



# Yolo County

## Investment Review First Quarter 2018

**Presented by:**  
**Sarah Meacham, Managing Director**  
**Allison Kaune, Senior Managing Consultant**

**May 8, 2018**

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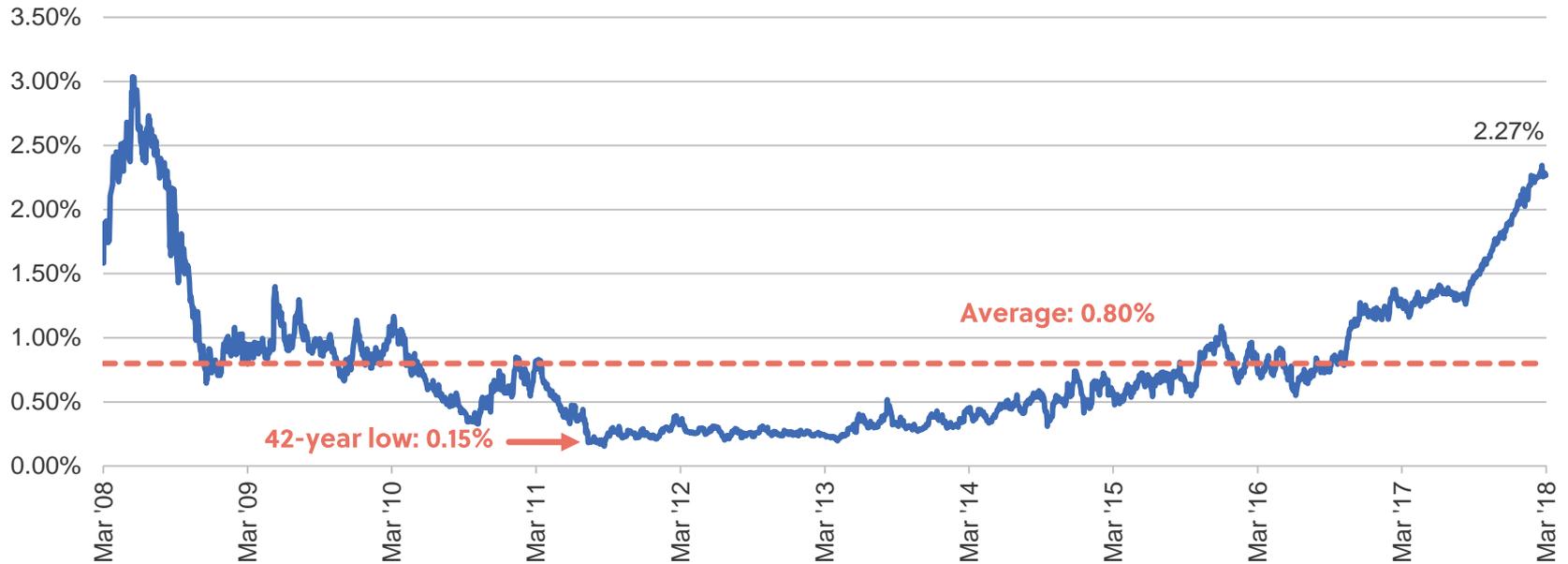
# Market Update



## Short-Term Treasury Yields Continue to Rise

- The 2-year Treasury yield continued to move higher throughout the first quarter of 2018, increasing 38 basis points (0.38%) to 2.27%, levels not seen since 2008.
- The first quarter marked the seventh straight quarterly rise in the 2-year yield as the U.S. economy remained strong and the Federal Reserve continued on its path of quantitative tightening, raising the federal funds target rate by 25 basis points to a range of between 1.50% to 1.75% at its March meeting.

2-Year Treasury Yield

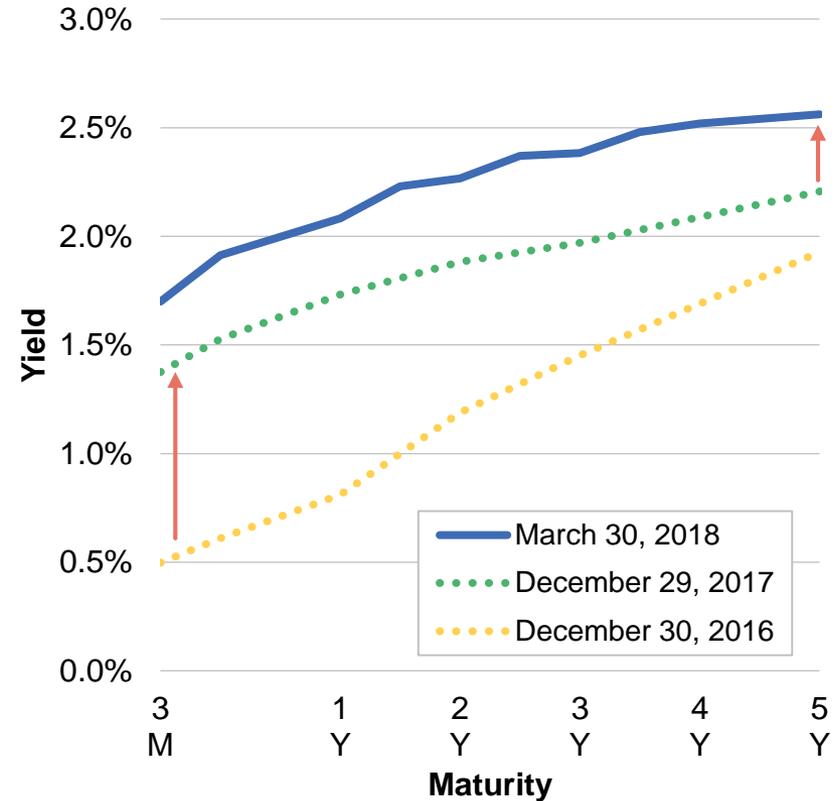


Source: Bloomberg, as of 3/31/2018.



# U.S. Treasury Curve

	Current 3/31/18	Year-End 12/29/17	Year-End 12/30/16
<b>3-month</b>	<b>1.70%</b>	1.38%	0.50%
<b>6-month</b>	<b>1.91%</b>	1.53%	0.61%
<b>1-year</b>	<b>2.08%</b>	1.73%	0.81%
<b>2-year</b>	<b>2.27%</b>	1.88%	1.19%
<b>3-year</b>	<b>2.38%</b>	1.97%	1.45%
<b>5-year</b>	<b>2.56%</b>	2.21%	1.93%
<b>10-year</b>	<b>2.74%</b>	2.41%	2.44%

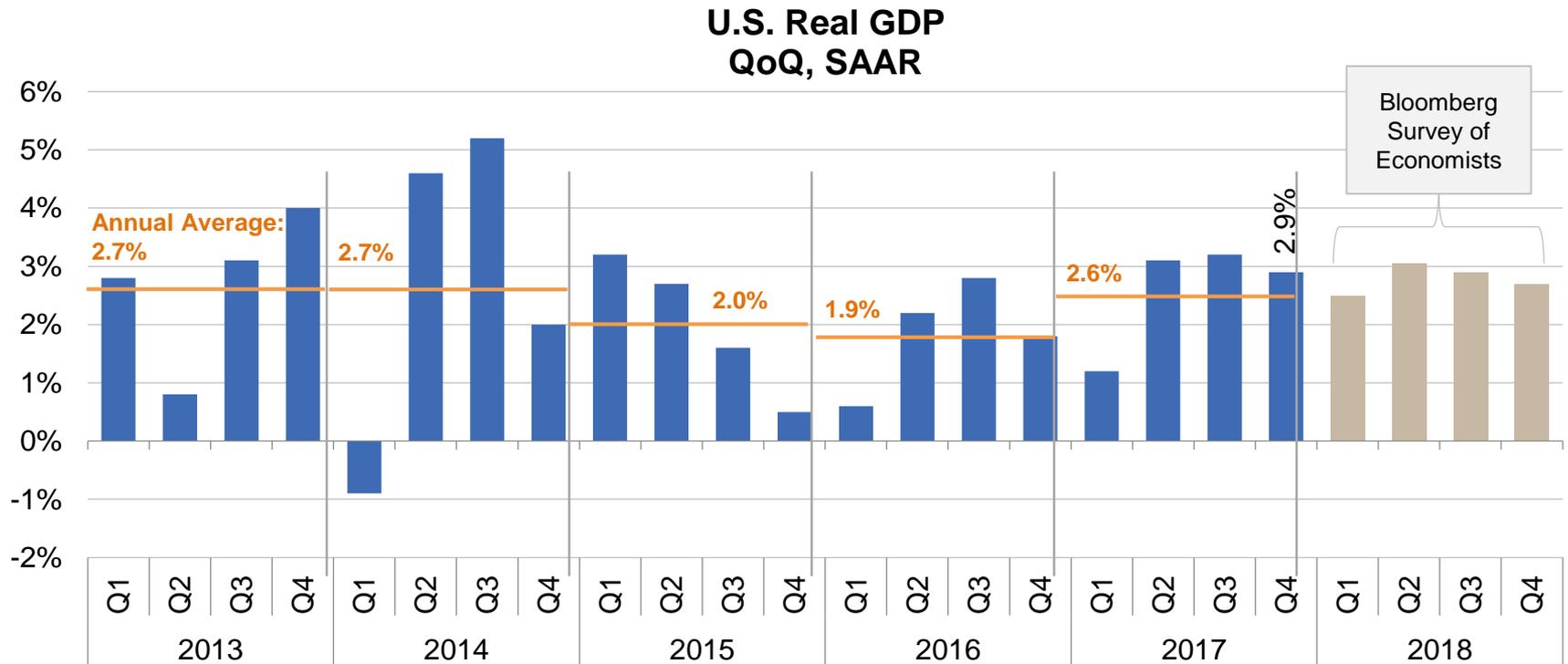


Source: Bloomberg, as of 3/31/2018.



## Moderate U.S. Economic Expansion

- U.S. gross domestic product (GDP) grew at an annualized rate of 2.9% in the fourth quarter of 2017. Despite slowing slightly from more than 3% growth in both the second quarter and third quarters, the overall pace of economic activity remained solid.



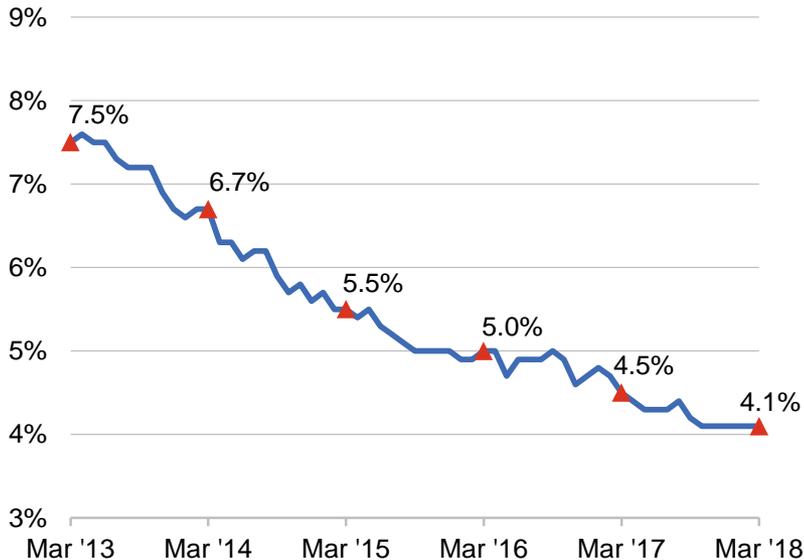
Source: Bloomberg, as of 3/31/2018.



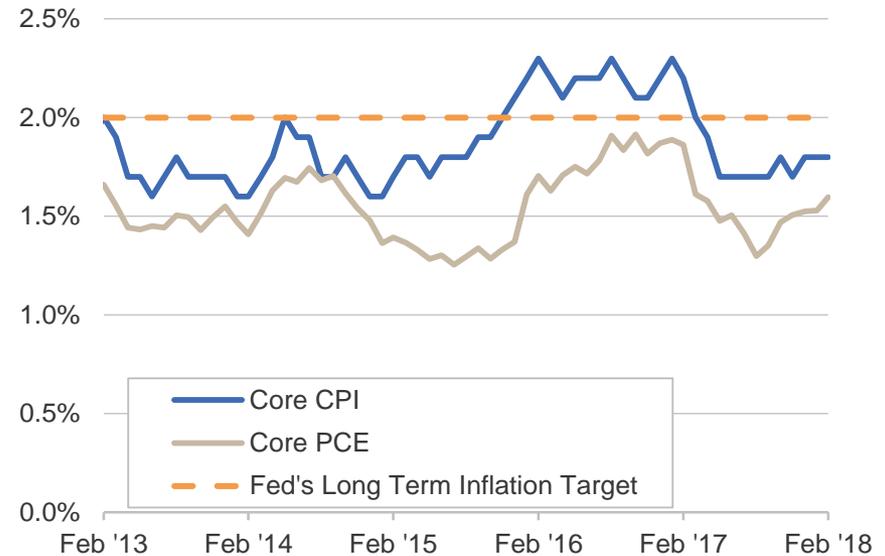
## Fed Seeks to Foster Maximum Employment and Price Stability

- “Information...indicates that the labor market has continued to strengthen...”
- “Job gains have been strong in recent months, and the unemployment rate has stayed low.”
- “On a 12-month basis, both overall inflation and inflation for items other than food and energy have continued to run below 2 percent.”
- “Inflation on a 12-month basis is expected to move up in coming months and to stabilize around the Committee’s 2 percent objective over the medium term.”

### Unemployment Rate



### Inflation Measures (YoY)

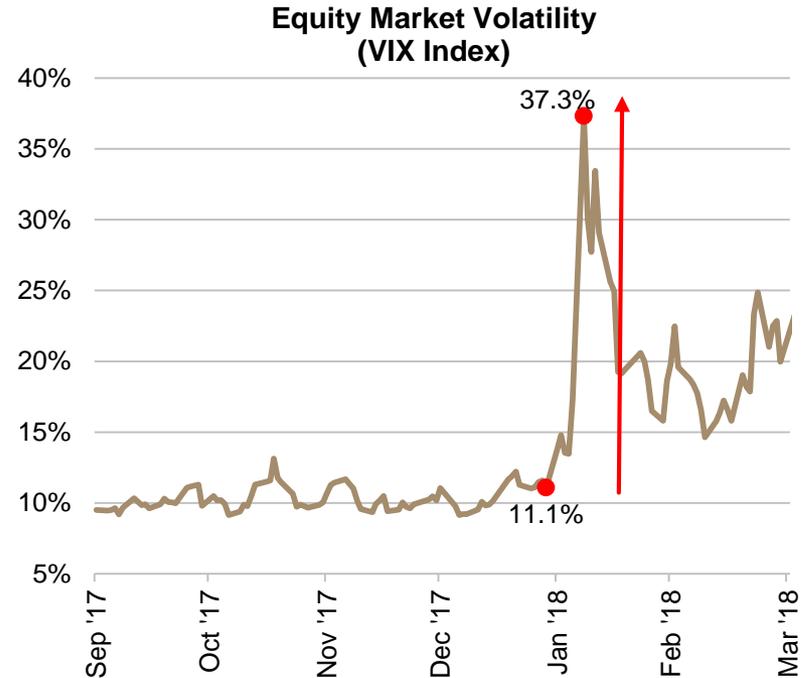
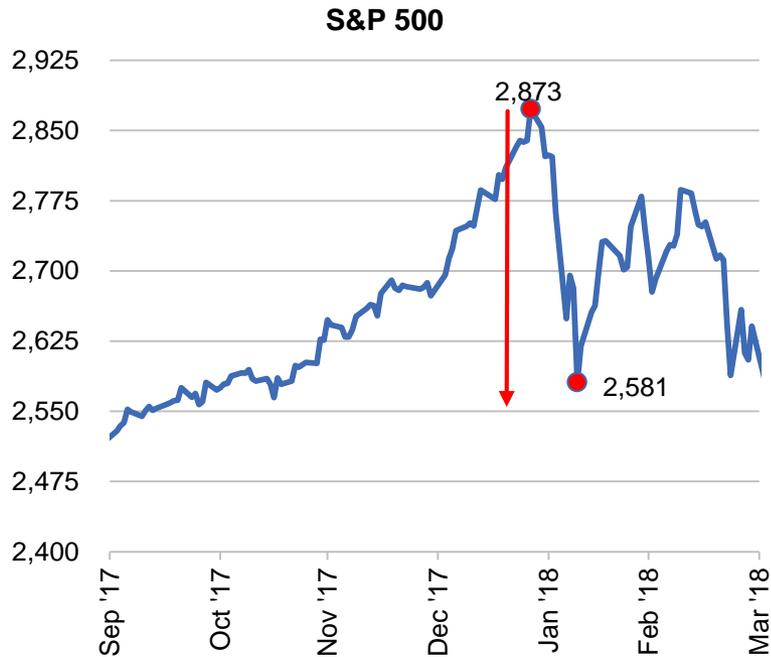


Source: Bloomberg, as of March 2018. FOMC March 21, 2018 meeting statement.



## The Return of Market Volatility

- After beginning 2018 as 2017 ended, calm and complacent with the S&P 500 logging 14 new record highs in January, volatility roared back into financial markets in early February.
- After months near all-time record lows, the Chicago Board Options Exchange (CBOE) Volatility Index surged to a near five-year high as concerns surrounding possible trade wars, overheating of the economy given tax cuts and expansionary fiscal budget, and stretched valuations took investors' focus.

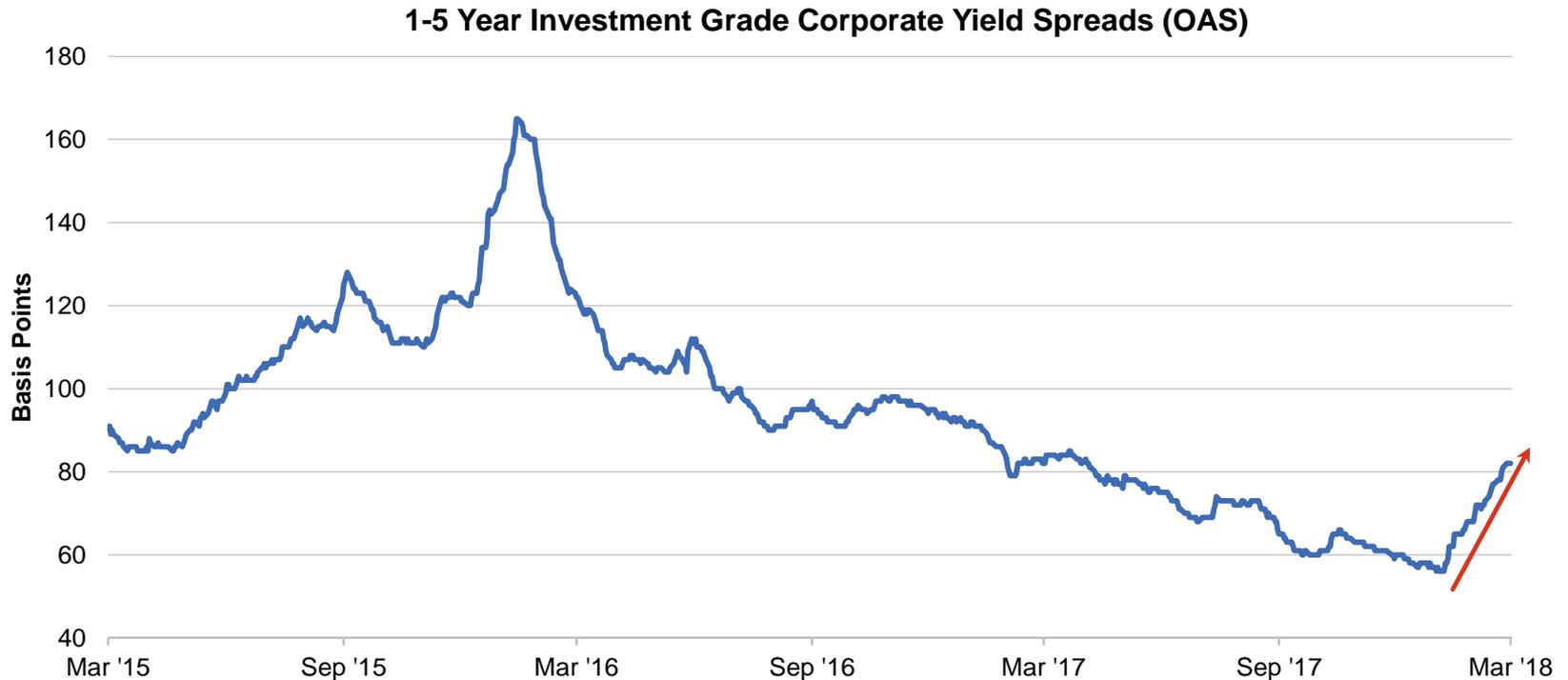


Source: Bloomberg, as of 3/31/2018.



## Credit Spreads Widen to Start 2018

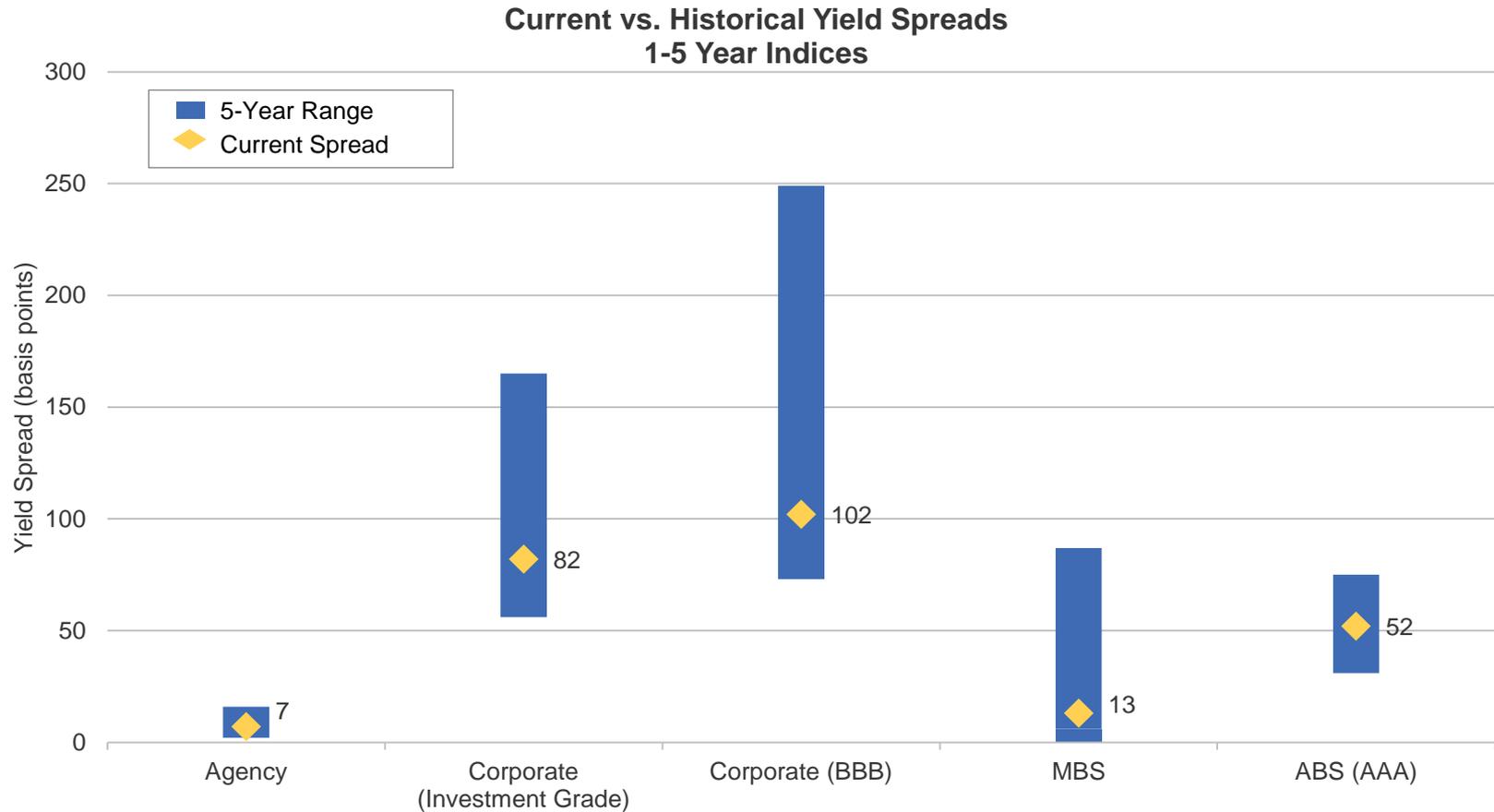
- Credit spreads spiked after the equity market turmoil in early February and have continued to drift wider.
- Although corporate securities have underperformed in the first quarter as a result of spread widening, they are now offered at their cheapest levels since May 2017. With the economy still improving and credit fundamentals still strong, this has been an opportunity to purchase credit investments with incremental value.



Source: Bloomberg, Bank of America Merrill Lynch Indices, as of March 2018. OAS is Option Adjusted Spread.



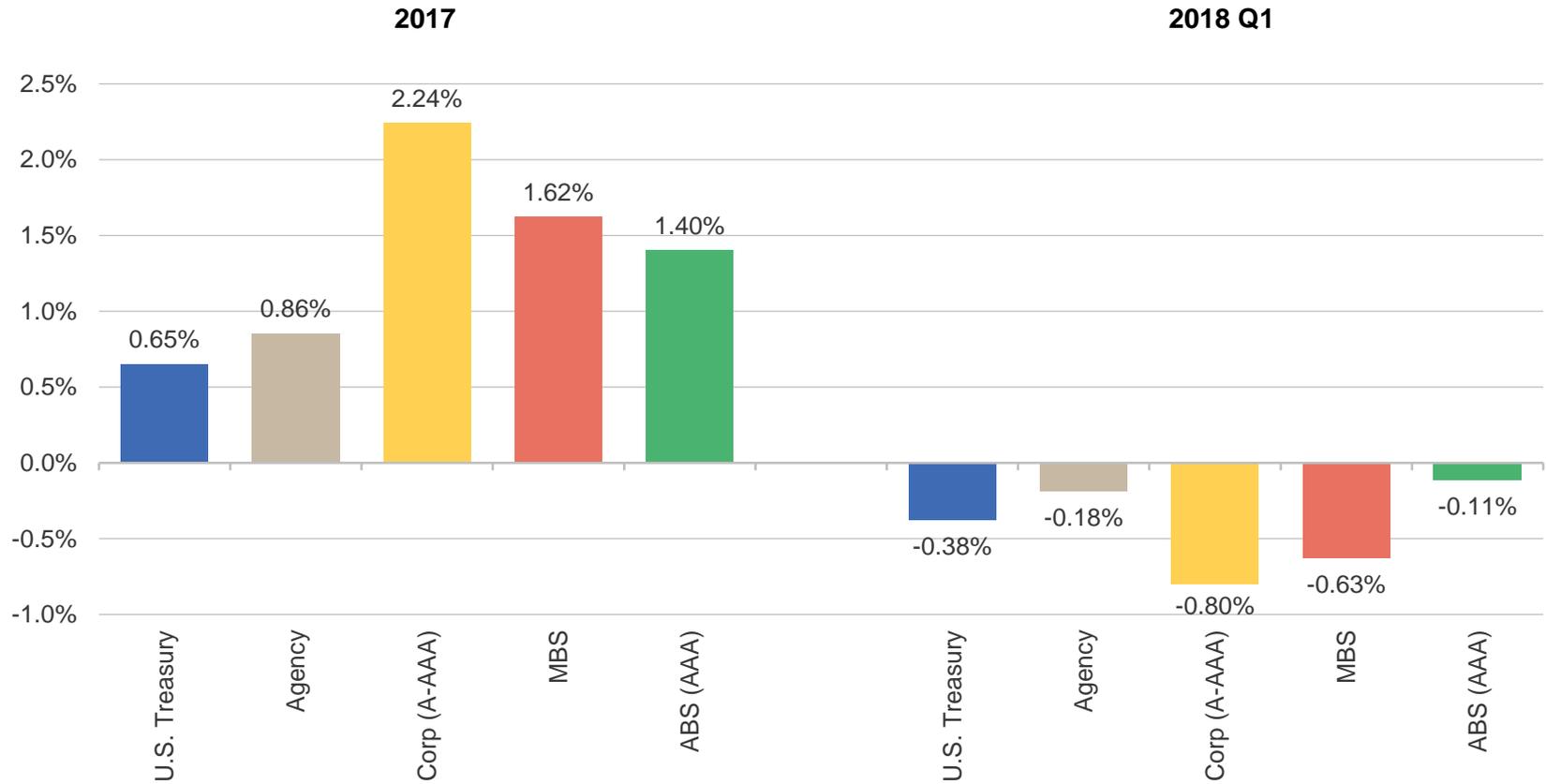
## Sector Yield Spreads Still Near Historically Tight Levels



Source: ICE BofAML 1-5 year Indices, as of 4/2/2018.



## Sector Returns 1-5 Year Indices

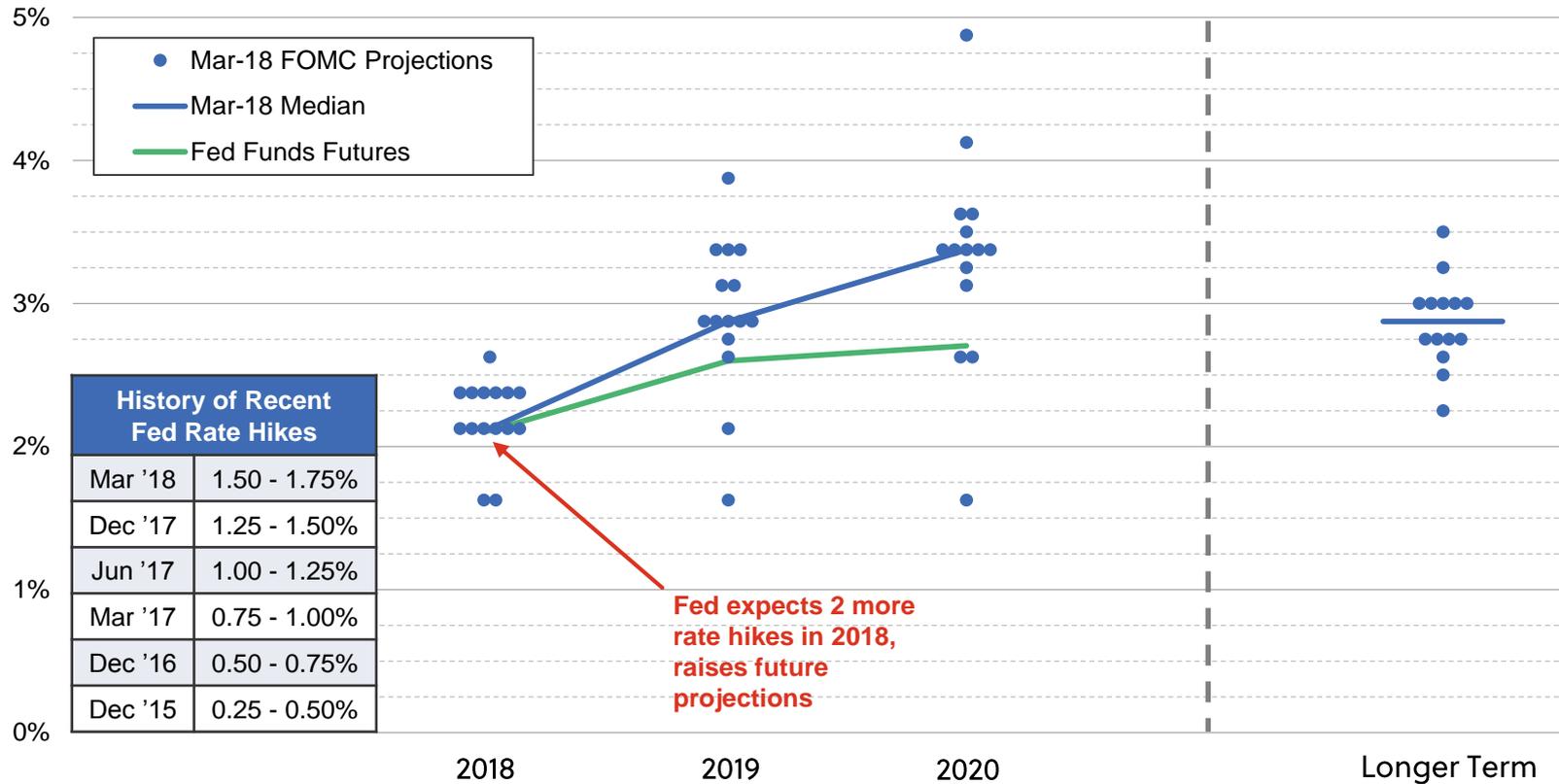


Source: ICE BofAML Indices. MBS and ABS indices are 0-5 year, based on weighted average life. As of 3/31/2018.



# FOMC “Dot Plot” – March 2018

Fed Participants’ Assessments of “Appropriate” Monetary Policy



Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members’ judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. Fed funds futures as of 3/21/18.



# Portfolio Review



## First Quarter 2018 Recap

- A long list of positive economic data remains a key driver of economic growth, consumer confidence, and business optimism.
- New Fed Chair Jay Powell made his first public address at February's semi-annual monetary policy report to Congress. His maiden testimony hinted at a continuance of gradual rate hikes while acknowledging that “the economic outlook remains strong” and the expectation for inflation to increase and closely approach the FOMC's 2% objective remains intact.
- The Fed remained true to its stated course, raising short-term rates by  $\frac{1}{4}$  percent in March, and interest rates continued their ascent over the quarter.
  - As a result, we strategically positioned the portfolio with a defensive duration bias relative to the benchmark to help insulate market values in the well-choreographed interest rate environment.
  - However, with rates at or near multi-year highs, there were also opportunities to capture higher yields selectively in some parts of the yield curve when rebalancing the portfolio.



## First Quarter 2018 Recap

- The combined effects of less predictable U.S. politics and policy created an environment of heightened volatility. The “risk off” sentiment triggered wider credit spreads.
  - Federal agency yield spreads remained very narrow throughout the quarter. New issue agencies continued to be our preferred—in some cases only—outlet to add exposure at relatively attractive yields. Generally, the agency sector added modest positive excess returns in the first quarter (returns in excess of similar-duration Treasuries) across much of the yield curve, benefiting portfolio performance.
  - Supranational seasonal supply increased as expected in the first quarter, and we utilized the opportunity to add to the portfolio’s allocation at attractive yield spreads. This incremental income helped boost sector returns.
  - After yield spreads in the corporate sector reached another new post-recession low in January, we shifted our generally constructive view of the corporate sector to a slightly more defensive posture by holding current positions (and letting them drift shorter over time) rather than adding to allocations. In the latter half of the quarter, the story shifted abruptly as market volatility pushed credit spreads markedly wider through quarter-end. As a result, we began to add corporate exposure (including negotiable CDs and commercial paper) again in March.
  - Asset-backed securities (ABS) were also impacted by adverse spread widening during the quarter but prompted no change in our fundamental view of the sector.
  - Rising rates and wider yield spreads hurt agency mortgage-backed security (MBS) returns in the quarter. We continued our cautious approach to the MBS sector, considering only shorter duration, less interest-rate-sensitive issues, like commercial MBS (CMBS)—those backed by loans on commercial properties.



## Yolo County Investment Objectives

Objective	Achieved through...
<b>Safety</b> <i>Safety of principal is the foremost objective of the investment program. Investments of the County shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.</i>	<ul style="list-style-type: none"><li>• High-quality investments</li><li>• Diversification by sector, issuer, and maturity</li></ul>
<b>Liquidity</b> <i>The investment portfolio shall be maintained in such a manner as to provide sufficient liquidity to meet the operating requirements of any of the participants.</i>	<ul style="list-style-type: none"><li>• Cash flow coordination with County staff members</li><li>• Appropriate allocation between liquid funds and investment portfolio balances</li></ul>
<b>Return on Investment</b> <i>The investment portfolio of the County shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.</i>	<ul style="list-style-type: none"><li>• Duration management</li><li>• Use of high-quality credit instruments</li><li>• Active trading based on continual evaluation of relative value among allowable sectors</li></ul>

Source: Yolo County's Investment Policy. Approved December 13, 2016.



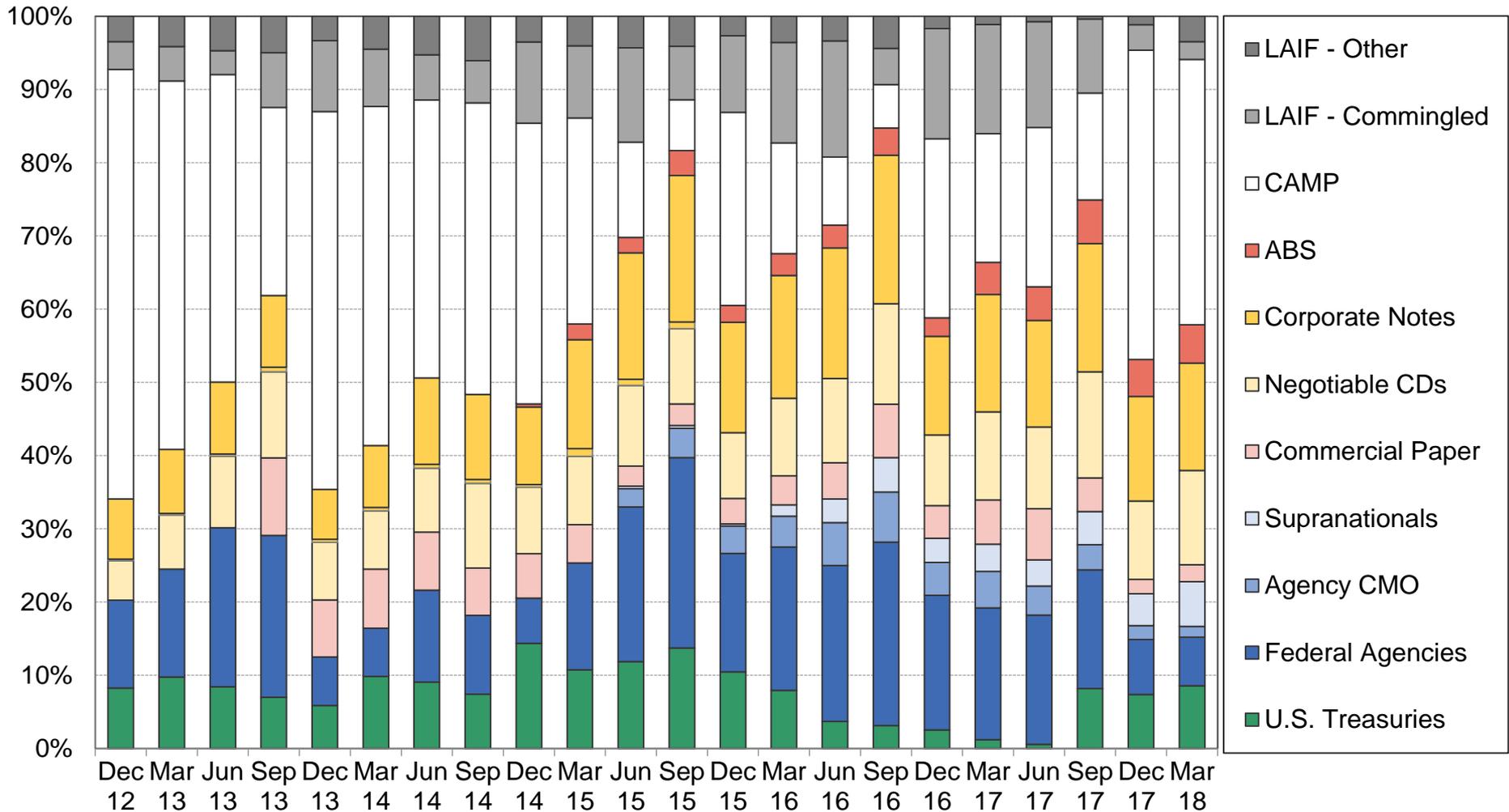
## Portfolio Composition

Security Type	Market Value as of 3/31/18	% of Portfolio	% Change vs. 12/31/17	Permitted by Policy	In Compliance
U.S. Treasury	\$37,569,014	8.6%	+1.5%	100%	✓
Federal Agency	\$29,054,300	6.6%	-0.6%	100%	✓
Federal Agency CMOs	\$6,536,737	1.5%	-0.3%	100%	✓
Supranationals	\$26,733,469	6.1%	+1.9%	30%	✓
Negotiable CDs	\$56,573,526	12.9%	+2.6%	30%	✓
Corporate Notes	\$64,363,397	14.7%	+0.9%	30%	✓
Commercial Paper	\$10,247,966	2.3%	+0.4%	40%	✓
Asset-Backed Securities	\$23,042,702	5.2%	+0.4%	20%	✓
<b>Securities Sub-Total</b>	<b>\$254,121,110</b>	<b>57.9%</b>			
Accrued Interest	\$907,810				
<b>Securities Total</b>	<b>\$255,028,920</b>				
CAMP	\$159,261,923	36.3%	-8.1%	100%	✓
LAIF - Total	\$25,759,566	5.9%	+1.4%	\$65 million per account	✓
<b>Total Investments</b>	<b>\$440,050,409</b>	<b>100.0%</b>			

*Detail may not add to total due to rounding.*



# Adding Value Through Sector Allocation





## Portfolio Issuer Distribution

Issuer Distribution	Market Value (\$)	% of Portfolio		
UNITED STATES TREASURY	\$37,569,014	14.8%	Top 5 = 38.4%	Top 10 = 51.6%
FANNIE MAE	\$19,360,358	7.6%		
FREDDIE MAC	\$15,850,241	6.2%		
INTL BANK OF RECONSTRUCTION AND DEV	\$12,092,003	4.8%		
TOYOTA MOTOR CORP	\$9,685,296	3.8%		
INTER-AMERICAN DEVELOPMENT BANK	\$8,667,803	3.4%		
BANK OF MONTREAL	\$6,438,955	2.5%		
SVENSKA HANDELSBANKEN AB	\$6,413,316	2.5%		
JP MORGAN CHASE & CO	\$6,142,614	2.4%		
INTERNATIONAL FINANCE CORPORATION	\$5,973,664	2.4%		
AMERICAN EXPRESS CO	\$5,759,644	2.3%		
HONDA AUTO RECEIVABLES	\$5,693,010	2.2%		
CANADIAN IMPERIAL BANK OF COMMERCE	\$5,634,237	2.2%		
DEERE & COMPANY	\$5,591,917	2.2%		
SUMITOMO MITSUI FINANCIAL GROUP INC	\$5,481,867	2.2%		
SWEDBANK AB	\$5,229,056	2.1%		
ALLY AUTO RECEIVABLES TRUST	\$5,138,245	2.0%		
BANK OF NOVA SCOTIA	\$4,972,020	2.0%		
AMERICAN HONDA FINANCE	4,919,829	1.9%		
THE BANK OF NEW YORK MELLON CORPORATION	4,902,580	1.9%		
SKANDINAVISKA ENSKILDA BANKEN AB	4,848,547	1.9%		
WESTPAC BANKING CORP	4,435,815	1.8%		
CREDIT AGRICOLE SA	4,333,153	1.7%		

As of March 31, 2018. Percentages may not sum to 100% due to rounding.

Continued on next page.



## Portfolio Issuer Distribution (cont.)

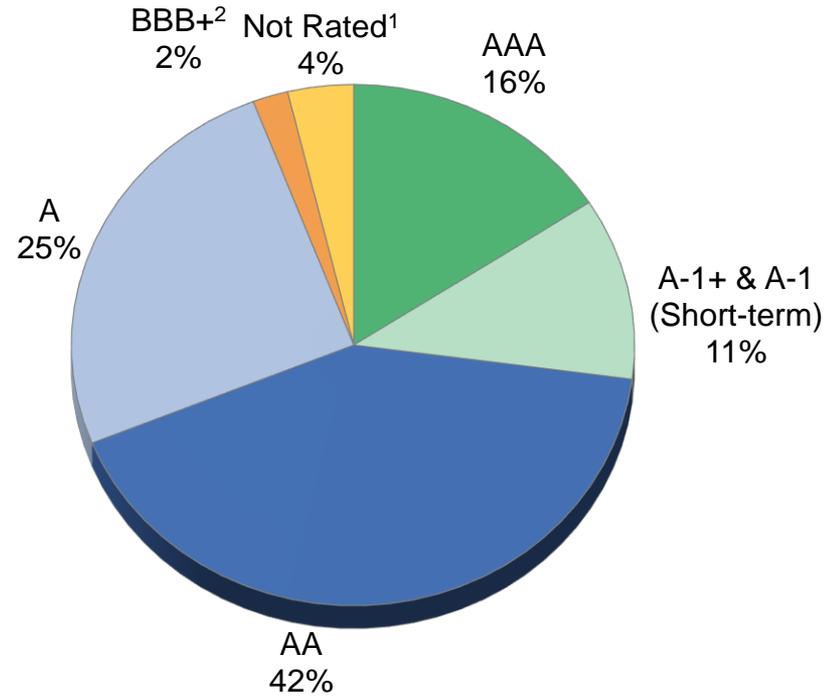
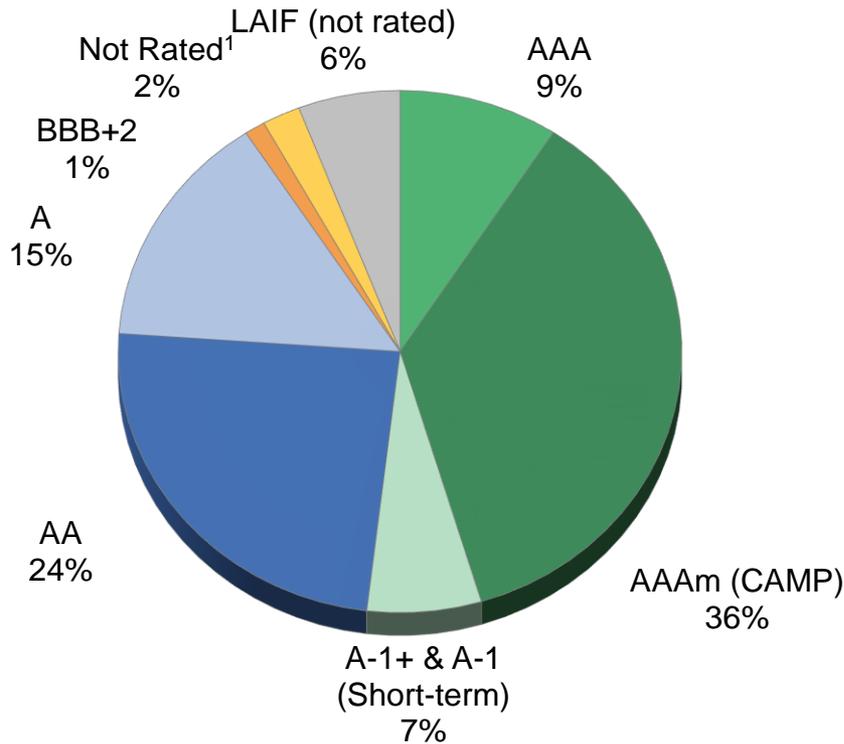
Issuer Distribution	Market Value (\$)	% of Portfolio
EXXON MOBIL CORP	4,191,626	1.7%
HYUNDAI AUTO RECEIVABLES	4,083,914	1.6%
UBS AG	3,918,090	1.5%
NORDEA BANK AB	3,898,157	1.5%
APPLE INC	3,464,780	1.4%
WELLS FARGO & COMPANY	2,953,101	1.2%
ING GROUP NV	2,748,623	1.1%
MITSUBISHI UFJ FINANCIAL GROUP INC	2,674,785	1.1%
CREDIT SUISSE GROUP	2,628,683	1.0%
IBM CORP	2,619,300	1.0%
BERKSHIRE HATHAWAY INC	2,603,467	1.0%
VISA INC	2,601,796	1.0%
BANK OF AMERICA CO	2,595,594	1.0%
CITIGROUP INC	2,594,856	1.0%
GOLDMAN SACHS GROUP INC	2,520,737	1.0%
CISCO SYSTEMS INC	2,420,679	1.0%
NISSAN AUTO RECEIVABLES	2,097,341	0.8%
CHEVRON CORPORATION	1,623,062	0.6%
UNITED PARCEL SERVICE INC	1,441,806	0.6%
JOHN DEERE OWNER TRUST	1,430,910	0.6%
BB&T CORPORATION	1,340,235	0.5%
PEPSICO INC	1,024,061	0.4%
GENERAL ELECTRIC CO	625,000	0.3%
FEDERAL HOME LOAN BANKS	380,438	0.2%
UNILEVER PLC	368,320	0.1%
CARMAX AUTO OWNER TRUST	138,568	0.1%

As of March 31, 2018. Percentages may not sum to 100% due to rounding.



# Portfolio Credit Quality

• The County's portfolio comprises high-quality securities.

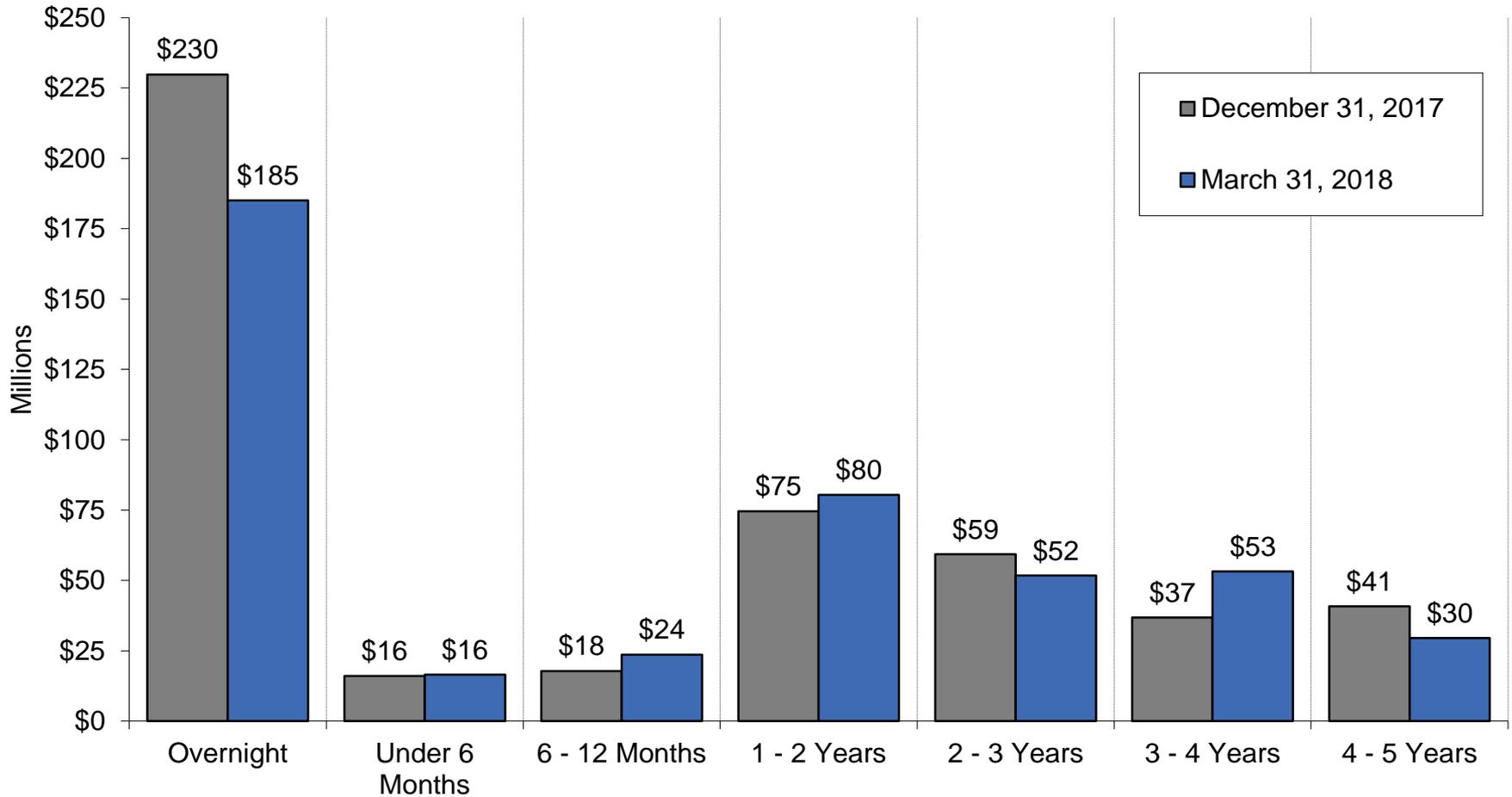


As of March 31, 2018. Percentages may not sum to 100% due to rounding. Ratings are based on Standard & Poor's.

1. The "BBB+" category comprises securities rated in a rating category of A or better by at least one NRSRO.
2. The "Not Rated" category comprises asset-backed securities rated Aaa by Moody's.



## Portfolio Maturity Distribution



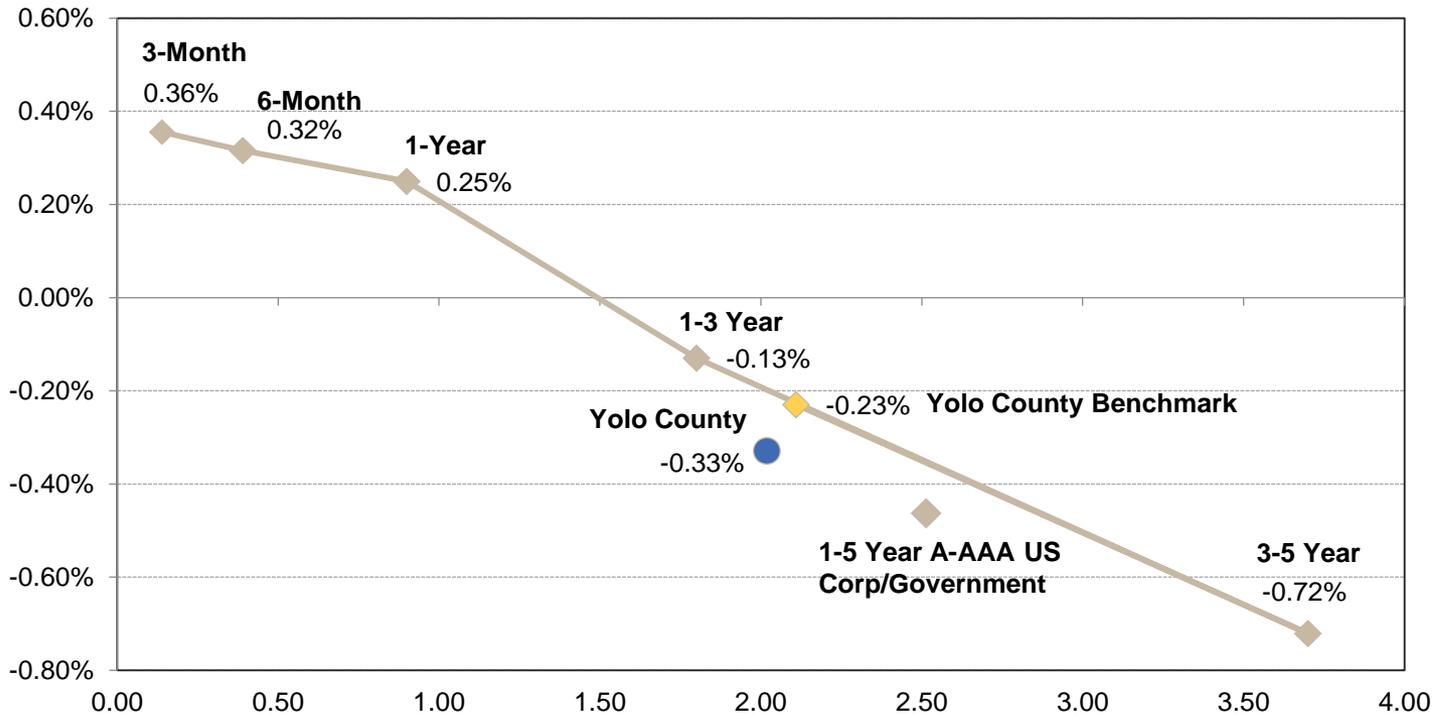
Callable and floating-rate securities are included in the maturity distribution analysis to their stated maturity date.



# Performance Driven by Rising Rates and Widening Credit Spreads

## Quarterly Total Returns

Yolo County, Yolo County Benchmark, and Various ICE BofA Merrill Lynch Treasury Indices



## Yields

### Portfolio Yield and LAIF Quarterly Apportionment Rate

Yolo County	1.84%
LAIF	1.51%

For periods ending as of March 31, 2018.

Source: Bloomberg, LAIF website.

The County's benchmark is the ICE Bank of America Merrill Lynch (BAML) 0-5 Year U.S. Treasury Index. From March 31, 2015, to September 30, 2017, the benchmark was a blend of 30% ICE BAML 3-month Treasury index and 70% ICE BAML 1-3 year U.S. Treasury Index. From March 31, 2002, to March 31, 2015, the benchmark was a blend of 50% ICE BAML 1-3 Year U.S. Treasury index and 50% ICE BAML 3-month Treasury Bill index. Prior to March 31, 2002, the benchmark was the ICE BAML 1-3 Year U.S. Treasury index.



## Portfolio's First Quarter Return Reflects Market Movements

### Total Return For periods ended March 31, 2018

	Duration (years)	Past Quarter	Past 1 Year	Past 5 Years	Past 10 Years	Since Inception
Yolo County	2.02	-0.33%	0.13%	0.69%	1.44%	3.11%
Treasury Benchmark	2.11	-0.23%	-0.05%	0.33%	0.69%	2.45%

Performance on a trade-date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).  
Bank of America Merrill Lynch indices provided by Bloomberg Financial Markets.  
Inception date is June 30, 1998.

Performance, yield, and duration calculations exclude holdings in CAMP, LAIF, and the money market fund.

The County's benchmark is the ICE Bank of America Merrill Lynch (BAML) 0-5 Year U.S. Treasury Index. From March 31, 2015, to September 30, 2017, the benchmark was a blend of 30% ICE BAML 3-month Treasury index and 70% ICE BAML 1-3 year U.S. Treasury Index. From March 31, 2002, to March 31, 2015, the benchmark was a blend of 50% ICE BAML 1-3 Year U.S. Treasury index and 50% ICE BAML 3-month Treasury Bill index. Prior to March 31, 2002, the benchmark was the ICE BAML 1-3 Year U.S. Treasury index.



## Earnings Analysis

As of March 31, 2018

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Past Year
Interest Earned	\$889,381	\$931,779	\$1,094,586	\$1,154,471	\$4,070,217
+ Change in Value	\$74,974	(\$247,087)	(\$1,451,450)	(\$2,028,702)	(\$3,652,265)
= Portfolio Earnings	\$964,355	\$684,692	(\$356,865)	(\$874,231)	\$417,951
<b>Total Return %</b>	<b>0.35%</b>	<b>0.25%</b>	<b>-0.13%</b>	<b>-0.33%</b>	<b>0.13%</b>
<b>Quarter-over-Quarter Change in 2-Year U.S. Treasury Yield</b>	<b>+0.12%</b>	<b>+0.11%</b>	<b>+0.40%</b>	<b>+0.39%</b>	<b>-</b>

*Notes:*

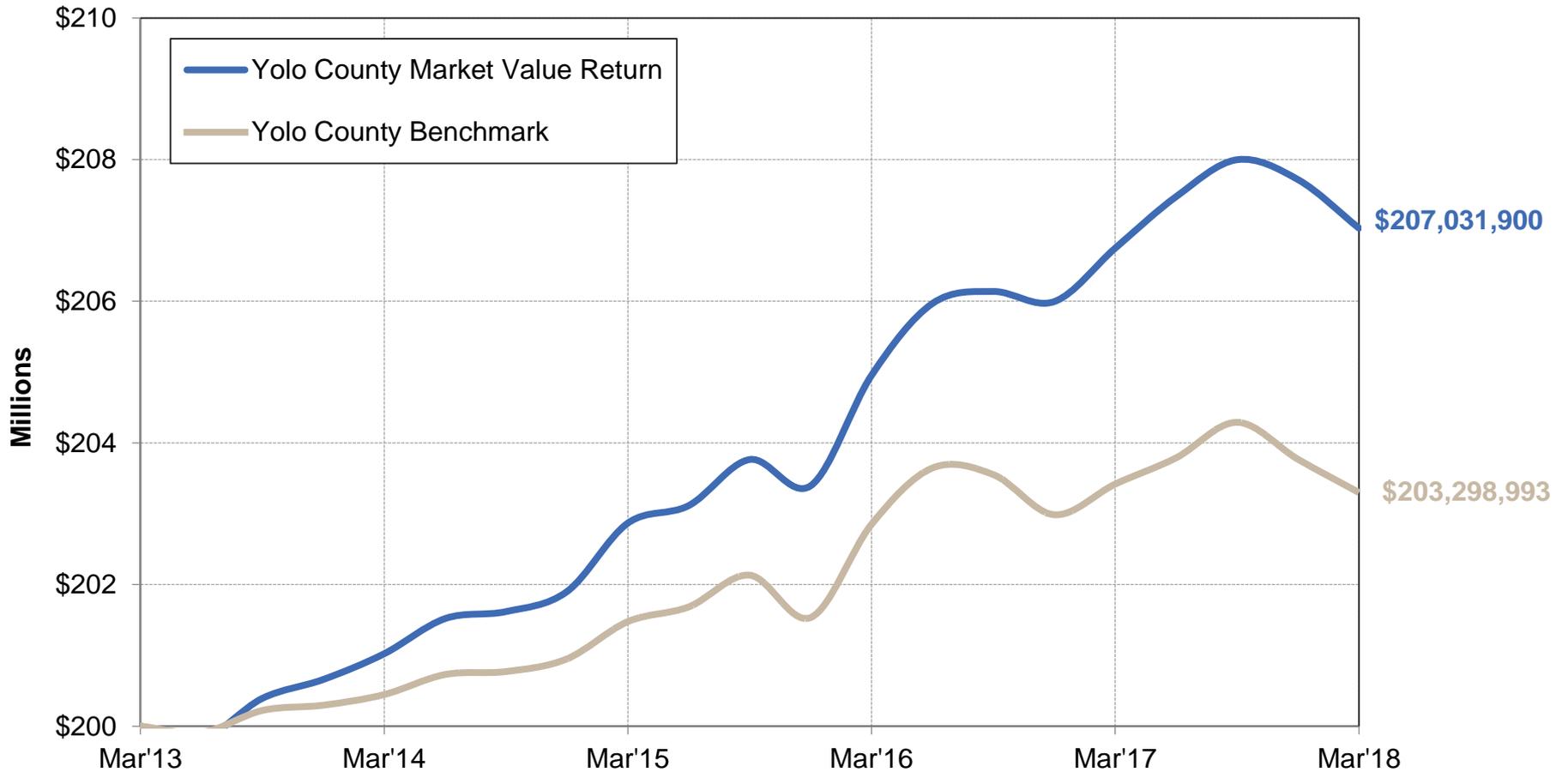
*Performance on trade-date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).*

*Quarterly returns are presented on an unannualized basis.*

*May not sum to total due to rounding.*



## County's Strategy Continues to Be Effective



Source: Bloomberg.  
Hypothetical growth of \$200 million.  
Past performance is not indicative of future performance.



## Current Outlook and Strategy

- The economic themes of the previous quarter have carried over into 2018: healthy job production, consistent GDP growth, positive corporate guidance, and heightened consumer confidence. However, where complacency had characterized the global markets quarter after quarter, volatility roared back in the first quarter. While rising volatility increases some market risks, it can also create investment opportunities.
- Our outlook for each of the major investment-grade fixed income sectors are as follows:
  - In the corporate sector, our view is that recent yield spread widening represents a modest normalization of spreads off of post-recession lows as opposed to a weakening in fundamentals. As such, wider spreads present an opportunity to selectively add to allocations at higher yields. While corporate fundamentals remain healthy and the outlook for the sector is still positive, careful issuer due diligence will drive selection.
  - Negotiable CDs and asset-backed securities remain attractively priced credit sectors, and we will continue to look for new exposure.
  - Federal agency spreads are in the low single digits across much of the yield curve, reducing relative value in that sector; however, by quarter end, specific agency maturities (2- and 5-year) were more attractively priced, representing an opportunity to potentially increase allocations.
  - The expected spike in supranational issuance is approaching its seasonal slowdown. Over the next few months, this supply dynamic may nudge spreads temporarily wider and offer additional investment opportunities. Our current strategy calls for continuing to add to allocations of supranationals as an attractive alternative to Treasuries and agencies.
  - The short-term credit curve (under one year) steepened noticeably heading into the March Fed meeting and remained elevated through quarter end. With 6-month prime commercial paper and negotiable certificates of deposit spreads at 50 to 60 basis points over comparable Treasury securities, the sector appears very attractive and compensates investors for at least two more fed rate hikes in 2018.



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*It is not possible to invest directly in an index. The index returns shown throughout this material do not represent the results of actual trading of investor assets. Third-party providers maintain the indices shown and calculate the index levels and performance shown or discussed. Index returns do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause investment performance to be lower than the performance shown.*

PFM Asset Management LLC has exercised reasonable professional care in the preparation of this performance report. However, information in this report on market indices and security characteristics, as well as information incorporated in the Market Commentary section, is received from sources external to PFM Asset Management LLC.

PFM Asset Management LLC relies on the client's custodian for security holdings and market values. Transaction dates reported by the custodian may differ from money manager statements. While efforts are made to ensure the data contained herein is accurate and complete, we disclaim all responsibility for any errors that may occur.

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# Property Tax Distribution Overview

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CHAD RINDE, CPA

ASSISTANT CFO

MAY 8, 2018

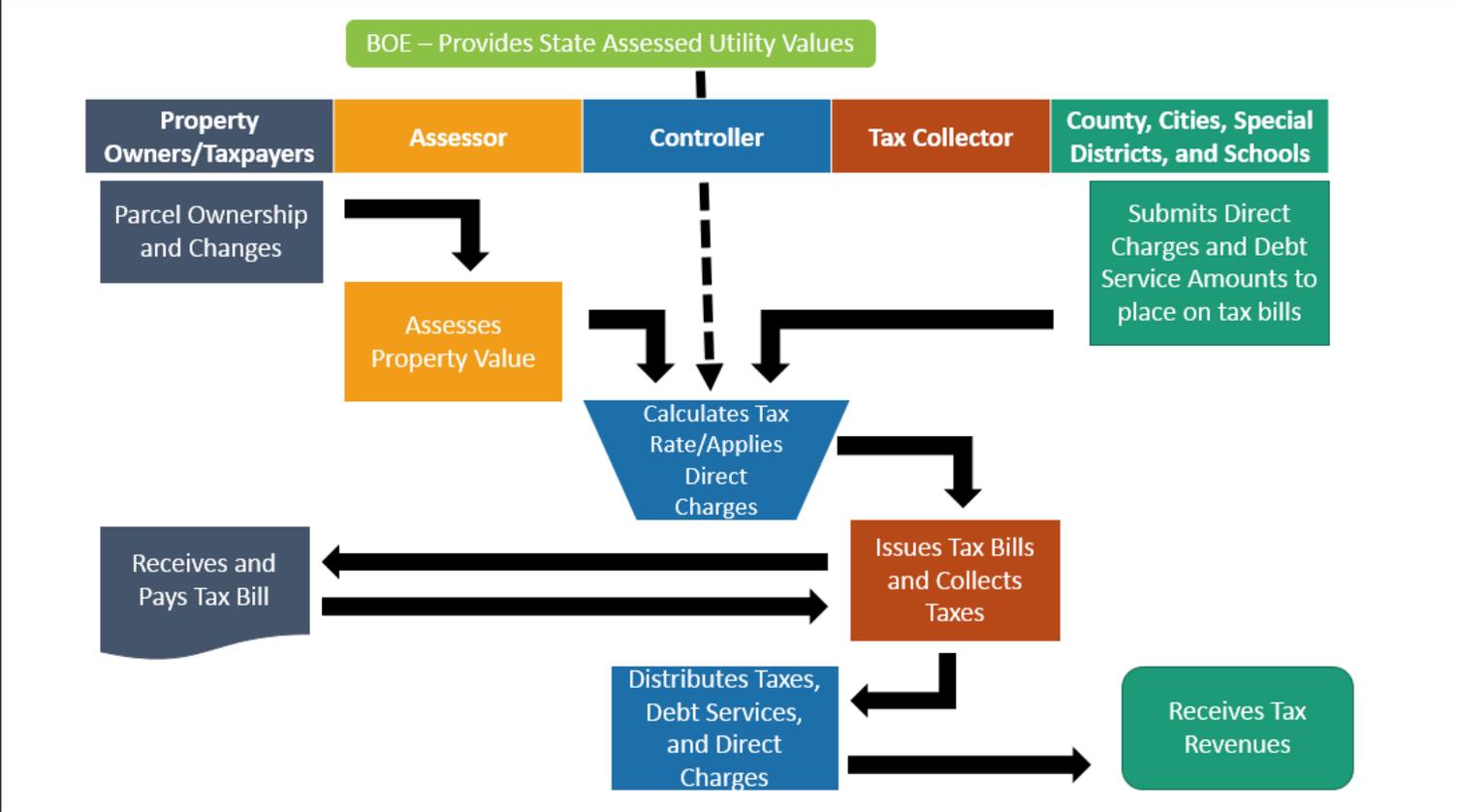
# Property Tax Distribution Overview

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## **Presentation Objectives:**

- Background on Property Tax Process
- Overview on how Property Taxes are Allocated
- 2017-18 Property Taxes Summary

# Property Tax Process



# Auditor-Controller (Property Tax Accounting) Responsibilities

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The Auditor-Controller conducts approximately twenty property tax apportionments on an annual basis including:

- Current secured apportionment
- Current unsecured apportionment
- Unitary apportionment
- Homeowner's Exemption Reimbursements
- RDA Dissolution / RPTTF distributions
- Fiscal Year End Teeter Plan Reconciliation (County of Yolo uses Teeter plan and thus ultimately distributes full amount of taxes and direct charges to respective entities. Shortfalls in collections are contained in the County Teeter Loss Reserve).

An apportionment schedule is used internally in the County for distribution planning purposes.

Prepares reports for corresponding apportionments.

# FOC Oversight

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- Property Tax distribution was added to the FOC oversight functions when transitioned from a Treasury oversight function due to the creation of a merged Department of Financial Services (CFO Model).
- The rationale is that that this function is traditionally performed by the elected Auditor-Controller and the performance of this function needs to be performed objectively and in accordance with the laws and regulations that govern the function. There is a responsibility of the staff that perform this function to ensure that there is fair treatment and application of the law to all taxing entities that receive property tax revenues.

# Apportionment & Distribution Schedule 2017-18

Roll	Percentage	Approximate Timing
Current Secured	50%	December, 2017
Current Secured	45%	April, 2018
Current Secured	5%	July, 2018
Current Unsecured	As received	Monthly
HOPTR	As received from State	Quarterly (4 remittances are received from state)
Supplemental	As received	Monthly

Distribution	Approximate Timing
First Distribution	January, 2018
Second Distribution	May, 2018
Final Distribution	July, 2018

# Property Tax Apportionment Process

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The Auditor-Controller apportions taxes to local taxing entities utilizing the AB8 formula below:

- + Amount received in prior year (base year)
- + Annual growth for their boundaries
- +/- Tax Transfers for Jurisdictional Changes
- +/- Tax Equity Allocation (TEA – No/Low Tax Cities)
- ERAF Contributions (if applicable)
- = Total amount per taxing entity
- / Divided by total for all taxing entities within County
- = AB8 Factor\*

\*1% GTL collections, less RDA increment, less refunds, multiplied by the AB8 factor is the apportionment amount.

Yolo County calculates the AB 8 Factors at the Tax Rate Area (TRA) Level.

# County AB Factors 2017-18

Entity	Entity Type	% of Total
County General Fund	County	7.366062%
County ACO Fund	County	0.987623%
County Library	County	1.147670%
County Road District #1	County	0.000171%
County Road District #2	County	0.433176%
City of Davis	Cities	4.958089%
City of West Sacramento	Cities	7.328274%
City of Winters	Cities	0.270185%
City of Woodland	Cities	4.409401%
City of Woodland Bond	Cities	0.000892%
City of Davis RDA	RPTTF	5.270060%
City of West Sacramento RDA	RPTTF	10.209770%
City of Winters RDA	RPTTF	0.968563%
City of Woodland RDA	RPTTF	0.510694%
State of Calif. Water Res.-LMA #4	Special District	0.021394%
State of Calif. Water Res.-LMA #12	Special District	0.002493%
Solano County Flood Control	Special District	0.009154%
Capay Cemetery District	Special District	0.028353%
Cottonwood Cemetery District	Special District	0.009198%
Davis Cemetery District	Special District	0.083775%
Knights Landing Cemetery District	Special District	0.012121%
Marys Cemetery District	Special District	0.014191%
Winters Cemetery District	Special District	0.065814%

Entity	Entity Type	% of Total
Capay Fire District	Special District	0.059948%
Clarksburg Fire District	Special District	0.032019%
Dunnigan Fire District	Special District	0.065535%
East Davis Fire District	Special District	0.200761%
Esparto Fire District	Special District	0.062454%
Knights Landing Fire District	Special District	0.028663%
Madison Fire District	Special District	0.062034%
Springlake Fire District	Special District	0.165788%
West Plainfield Fire District	Special District	0.126860%
Willow Oak Fire District	Special District	0.122940%
Winters Fire District	Special District	0.117567%
Yolo Fire District	Special District	0.036847%
Zamore Fire District	Special District	0.043527%
Elkhorn Fire District	Special District	0.019382%
No Mans Land Fire District	Special District	0.002689%
Sacto-Yolo Mosquito & Vector Control	Special District	0.720510%
Reclamation District #827	Special District	0.009658%
Reclamation District #307	Special District	0.026883%
Dixon Resources Conservation District	Special District	0.000658%
Yolo Co Conserv District	Special District	0.007541%
Special Road Maintenance District #3	Special District	0.000000%
Yolo County Flood Control District	Special District	0.411034%

# County AB Factors 2017-18

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Entity	Entity Type	% of Total
Knights Landing Community Services District	Special District	0.005653%
Esparto Community Services District	Special District	0.018565%
Cacheville Community Services District	Special District	0.001746%
El Macero County Service Area	Special District	0.035847%
County Service Area #6-Snowball	Special District	0.016371%
County Service Area #9	Special District	0.006362%
Madison County Service Area	Special District	0.001089%
County Schools	Schools	2.660079%
Davis Joint Unified School District	Schools	10.997370%
Esparto Unified School District	Schools	1.295038%
Washington Unified School District	Schools	4.639624%
Winters Joint Unified School District	Schools	0.813004%
Woodland Joint Unified School District	Schools	9.620833%
Los Rios Community College	Schools	2.157110%
Yuba Community College	Schools	2.490406%
Solano Community College	Schools	0.102213%
River Delta School District	Schools	0.636747%
Pierce Joint Unified School District	Schools	0.271174%
County Schools ERAF	Schools	15.467158%
Community College ERAF	Community Colleges	2.333189%
GRAND TOTAL		100.000000%

# RPTTF Apportionments

---

Property Taxes related to former Redevelopment Agencies (RDAs) are apportioned outside of the AB8 factors to the Redevelopment Property Tax Trust Fund and are apportioned and disbursed in accordance with RDA Dissolution legislation ABX1 26, AB1484 and SB107.

- Former RDAs receive the tax increment above the frozen base.
- The tax increment revenue is held in the Redevelopment Property Tax Trust Fund (RPTTF) and disbursed twice a year in January and June
- The County Auditor-Controller is the administrator for all the RPTTF funds and is responsible for all pass-through calculations and the oversight of several wind-down activities.

# Property Tax Oversight – SCO Audits

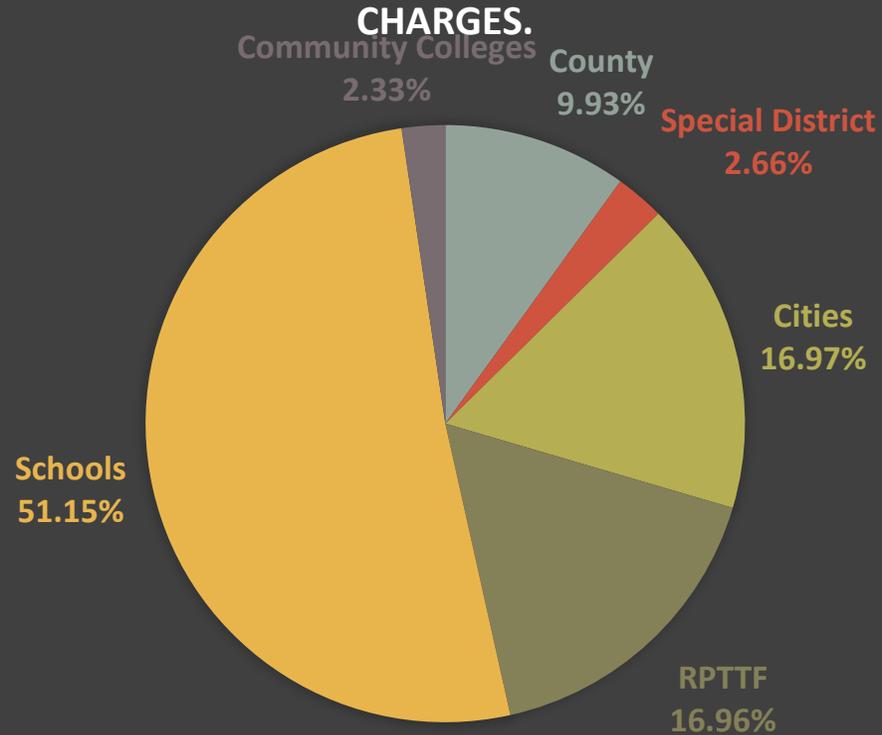
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Senate Bill 418 was enacted in 1985 requiring the State Controller to audit the counties' apportionment and allocation methods and report the results to the California State Legislature.

- Audit objective – review the County's apportionment and allocation of property tax revenue to local taxing entities, including schools within its jurisdiction to determine if the county complied with Revenue and Taxation requirements.
- Extensive review and testing is conducted by SCO on the AB8 factor computation and apportionments.
- State Controller is currently performing audit from July 1, 2014 to June 30, 2017 for Yolo County. Report is expected to be issued in the next few months.
  - The State had an exit meeting with the County staff and shared their initial findings however have not yet provided a written report.

## PROPERTY TAXES LEVIED BY AGENCY TYPE

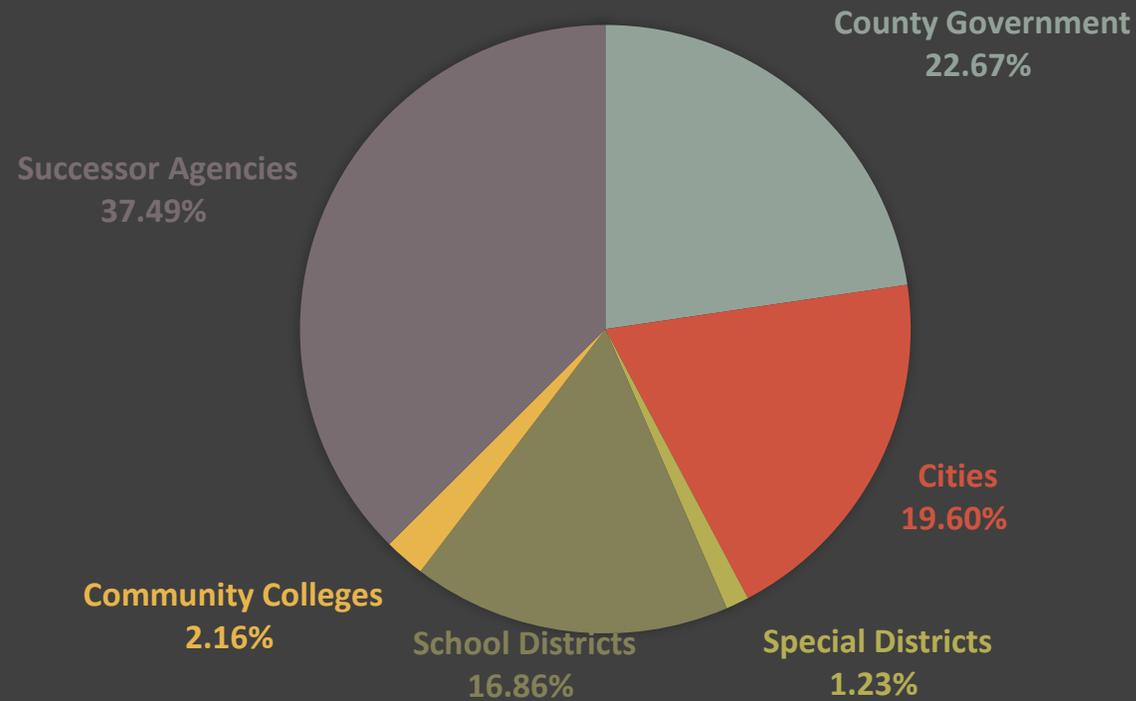
NOTE: REFLECTS THE CURRENT 2017-18 LEVY IN ACCORDANCE WITH AB8 EXCLUDING DIRECT CHARGES.



Note: Property Tax levy was \$265,706,911 in fiscal year 2017-18 (excludes direct charges).

## RPTTF INCREMENT DISTRIBUTION

NOTE: BASED ON REPORTING TO THE STATE OF CALIFORNIA DEPARTMENT OF FINANCE PERTAINING TO THE 2017-18 ROPS A & ROPS B.



Note: Property Tax increment distributed related to former Redevelopment Agencies was approx. \$41.7 million.