

**Oro Loma Sanitary District
MEMORANDUM**

TO: Board of Directors

FROM: Finance & Insurance Committee
Directors Young & Walters

DATE: December 14, 2018

SUBJECT: MINUTES, MEETING OF DECEMBER 14, 2018

The Finance and Insurance Committee, consisting of Directors Young and Walters, General Manager Warner, and Finance Manager Wong met on Friday, December 14, 2018 at 9:30 a.m. Director Glaze was in the audience. Also present was Director-Elect Simon. Items discussed included the following:

● **MONTHLY FINANCIAL REPORTS, NOVEMBER 2018**

The Committee reviewed the November 2018 financial reports and check register. All records were found to be in accounting compliance, and expenses were on target for the year-to-date interval. The cash and investment position was \$26.8 million, and was \$8.5 million higher than in June 2018 and \$10.7 million higher than in November 2017. The cash balance included \$10.8 million of bond proceeds invested in Treasury Notes.

The following disbursements were reviewed and found to be in good order.

| | | |
|----------|------------------------------|--------------|
| ▪ #62496 | AmeriPride | \$8,365.34 |
| ▪ #62516 | EBMUD | \$2,970.00 |
| ▪ #62523 | Frank A. Olsen Co. | \$17,460.85 |
| ▪ #62529 | Hydroscience Engineers | \$3,745.00 |
| ▪ #62537 | Kennedy Jenks Consultants | \$2,822.99 |
| ▪ #62594 | GSE Construction Co. | \$519,140.18 |
| ▪ #62595 | Kennedy Jenks Consultants | \$22,887.75 |
| ▪ #62599 | The Regents of U.C. Berkeley | \$11,980.77 |

The Committee recommended Board approval of the financial reports.

● **ECONOMIC ACTIVITY & MARKET RATES UPDATE**

The Committee reviewed a Wells Fargo commentary on current economic conditions. This week, two- and three-year yields rose above the five-year yield. This inversion of the yield curve has been an historic signal of a downturn. Nevertheless, the Fed is still expected to move forward with an interest rate increase this month. The District's overall investment yield in November 2018 was 2.150%. LAIF's interest rate was 2.208%.

The Committee accepted the information. An excerpt from the commentary and a copy of the Summary of Investment Yields are included with these minutes.

● **ATTORNEY'S INVOICE**

The Committee reviewed the November 2018 attorney's invoice, in the amount of \$2,161.99.

The Committee accepted the invoice.

- **STATE CONTROLLER'S REPORTS ON SPECIAL DISTRICT FINANCIAL TRANSACTIONS FY 2017-18**

The Committee reviewed reports submitted to the State Controller's Office for FY 2017-18 financial transactions.

The Committee accepted the information.

- **EAST BAY DISCHARGERS AUTHORITY (EBDA) – FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

The Committee reviewed the highlights of EBDA's audited financial statements for FY 2017-18 and a ten-year history of its Statement of Revenues, Expenses, and Changes in Net Position.

The Committee accepted the information.

- **ADJOURNMENT**

There being no further business to come before the Committee, the meeting adjourned at 10:15 a.m.

ATTACHMENTS:

- **Wells Fargo Securities Commentary (excerpt)**
- **Summary of Investment Yields, August to November 2018**

Consumer Price Inflation • Wednesday

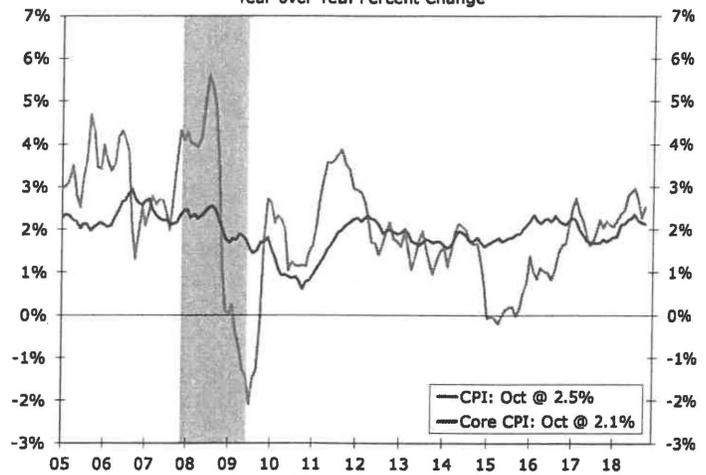
CPI inflation picked up in October on the back of higher energy costs, but the boost is expected to be unwound in November. Gasoline prices according to AAA fell 11% over the month and likely offset price hikes in other categories, keeping headline inflation flat. Excluding food and energy, inflation is expected to rise 0.2%, nudging the year-ago rate back up to 2.2%. The dollar's strength is helping to keep a lid on goods inflation despite recent tariffs, while services inflation has moderated a touch recently amid softer shelter and medical care pricing.

We expect the pullback in headline inflation to have no bearing on the Fed's rate decision for December. A softer-than-expected print for core inflation would also be unlikely to deter the Fed from going ahead with its widely-telegraphed hike in December. A miss on the core, however, could make officials comfortable with a more gradual path of policy tightening in 2019.

Previous: 0.3% Wells Fargo: 0.0%

Consensus: 0.0% (Month-over-Month)

U.S. Headline CPI vs. Core CPI
Year-over-Year Percent Change



Retail Sales • Friday

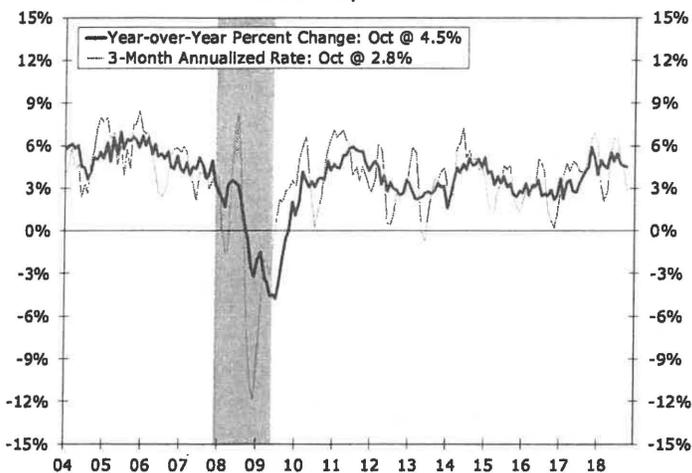
After jumping 0.8% in October, retail sales are likely to have increased a more modest 0.2% in November. Total sales are expected to have been held down by fewer auto sales and lower revenues at gas stations as prices at the pump plummeted. However, control group sales, which exclude autos, gas, building materials and food services, are expected to be strong following what looks to have been an impressive start to the holiday shopping season.

The retail sales report's proclivity for revisions and general choppiness make it unlikely to sway the Fed's December policy decision. Yet a downside miss in control group sales could cause markets to second-guess generally robust expectations for holiday sales. In contrast, an upside surprise is likely to illustrate to markets that consumer spending remains solid and is likely to provide sizeable support to growth in the coming months.

Previous: 0.8% Wells Fargo: 0.2%

Consensus: 0.2% (Month-over-Month)

Retail Sales Ex-Food, Autos, Gas & Building Materials
"Control Group" Retail Sales



Industrial Production • Friday

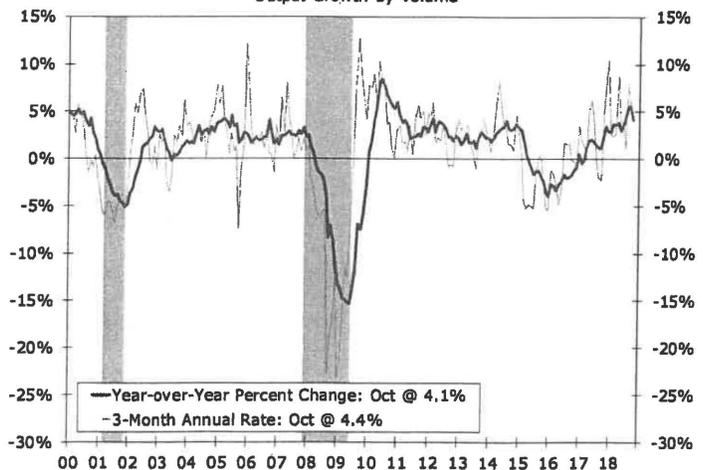
The pace of industrial production (IP) has picked up over the course of the year and is running around the fastest pace since 2011. Solid growth in durables has propelled output in the manufacturing industry up 2.7% over the past year. The real standout, however, has been the mining sector, where output is up 13% since last October. The lift from mining likely faded in November, as plummeting oil prices scaled back drilling, exploration and oil support services. Total IP, however, should still increase 0.3%. Recent PMI readings indicate manufacturing activity continues to expand at a decent pace, while a colder-than-usual November raised utilities output.

Ex-utilities, a strong print would signal the industrial sector remains on firm ground despite recent concerns about slowing domestic and global growth. A miss on the downside, on the other hand, would further stoke fears about a slowdown and whether the FOMC's plans to raise rates three times next year is potentially too aggressive.

Previous: 0.1% Wells Fargo: 0.3%

Consensus: 0.3% (Month-over-Month)

Total Industrial Production Growth
Output Growth by Volume



Source: U.S. Dept. of Labor, U.S. Dept. of Commerce, Federal Reserve Board and Wells Fargo Securities

Topic of the Week

Looking Back at the Bush Economy

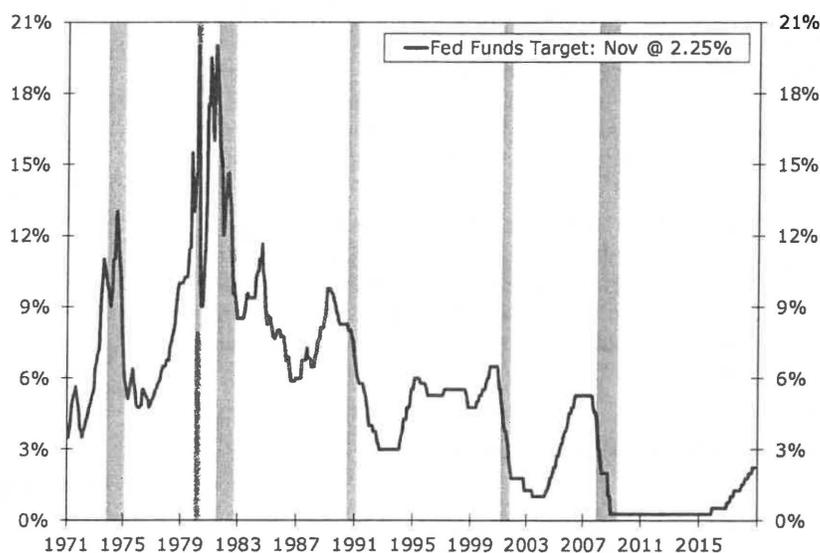
The passing of former President George H.W. Bush has sparked quite a bit of reflection on his presidency and the state of the country in the late 1980s and early 1990s. George Bush became president at a momentous time in U.S. history. Bush took office just as the U.S. economy entered the eighth year of what became the longest peacetime economic recovery in the post-World War II era. Growth in 1988 had proved surprisingly strong in light of the 1987 stock market crash, which had wiped away much of that year's gains. After initially cutting interest rates after the market collapse, the Federal Reserve embarked on an aggressive round of interest rate hikes that extended into the first year of the Bush presidency, hiking the federal funds rate from 6.50% to 9.75% in a little less than a year.

The reemergence of the savings & loan crisis caused the Fed to back track in 1989. The Berlin Wall came down later that year, toppling on November 9. Throughout the tumult of these events, the Fed appeared to have guided the economy in for a soft landing with real GDP growth moderating to a 3.0% pace in the first half of 1990 and inflation subsiding to just a 4.0% pace, down from 4.7% a year earlier. Unfortunately, Iraq invaded Kuwait in early August of that year, sending oil prices soaring and sending the U.S. economy into what was a fairly short recession that ended in March of the following year.

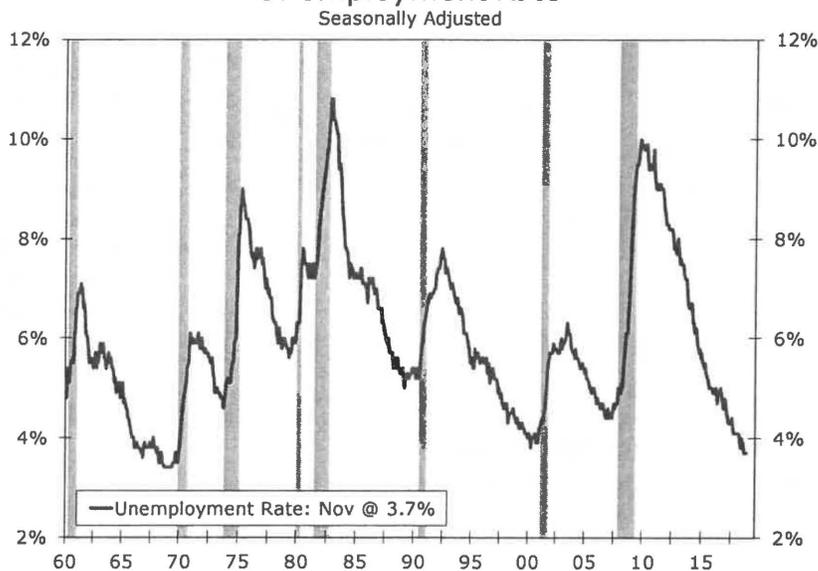
President Bush did a masterful job of building a coalition to free Kuwait, as well as marshal the authorization to use force through a contentious Congress and execute a war strategy that produced a stunningly quick victory with far fewer casualties than widely feared.

With the war over the recession quickly ended. The recovery took much longer to materialize, however. Unlike previous recoveries, the unemployment rate continued to trend higher some 15 months after the recession ended and topped out at nearly 8% just five months before his electoral defeat to Bill Clinton in 1992. This slower recovery of the labor market has become the norm for economic recoveries in the Post-Cold War era.

Fed Funds Target Rate



Unemployment Rate



Source: Federal Reserve Board, U.S. Department of Labor and Wells Fargo Securities

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**Oro Loma Sanitary District
SUMMARY OF INVESTMENT YIELDS**

| Investment Portfolio | September 2018 | | October 2018 | | November 2018 | |
|-------------------------|----------------------|---|----------------------|---|----------------------|---|
| | Value (\$) | % | Value (\$) | % | Value (\$) | % |
| LAIF | \$ 1,647,828 | 2.063% | \$ 5,134,205 | 2.144% | \$ 3,684,205 | 2.208% |
| UMB Bank-Cash | \$ 595,635 | 0.010% | \$ 432,641 | 0.010% | \$ 427,401 | 0.010% |
| UMB Bank-Investments | \$ 12,047,141 | weighted among all securities 1.786% | \$ 22,115,736 | weighted among all securities 2.182% | \$ 22,115,736 | weighted among all securities 2.182% |
| Weighted Average | \$ 14,290,604 | 1.744% | \$ 27,682,582 | 2.141% | \$ 26,227,343 | 2.150% |