COUNTY OF HUMBOLDT

JOHN BARTHOLOMEW
TREASURER-TAX COLLECTOR

825 FIFTH STREET ROOM 125
EUREKA, CALIFORNIA 95501

PHONE: 707-476-2450
FAX: 707-445-7608
TOLL FREE: 877-448-6829
EMAIL: taxinfo@co.humboldt.ca.us

Subject: Interest Apportionment Rate, and Other Considerations June 20, 2013

Dear Honorable Board Members,

Your fund balances in the County Treasury from January through March 2013 (Fiscal 3rd Quarter) earned an annualized interest rate of **.48%.** (Ouch again) For comparison purposes, the LAIF (Local Agency Investment Fund) rate was **.26%.**

Interest rates have risen over the last couple weeks based on speculation that the Federal Reserve (Fed) will begin reducing its bond buy-back program in the near future. The Fed had not specifically said this was going to occur, but language used by the Fed to describe their perspective had left the impression that this may occur. When Ben Bernanke (Fed Chairman) speaks every nuance he uses is parsed into pieces of potential meaning which can cause markets to move in one direction or the other. Welcome to the strange world of 'Fed-Speak'.

Much of that speculation was erased yesterday when Bernanke said "the central bank may start reducing bond purchases later this year, and if the subsequent data remain broadly aligned with our current expectations for the economy, we will continue to reduce the pace of purchases in measured steps through the first half of next year, ending purchases around mid-year."

In a nutshell it is anticipated that interest rates will gradually rise as the Fed bond purchase program tapers off and stops. However, if the unemployment rate does not decrease to the 6.5% level (the stated benchmark of the Fed) and if the economies of Europe and China continue to slow, there is also a real possibility that rates will remain near these low levels for an extended period of time until the global economy truly stabilizes.

The continuing challenge for the County Treasury is to maintain a decent yield (relatively speaking) in the portfolio yet keep enough liquidity on hand to gradually shift into higher yielding securities as interest rates rise…….while at the same time not getting stuck holding too many of the current low yielding securities until they mature. It is a "damned if you do, and damned if you don't" investment environment right now. Hopefully clarity will shine through in the not too distant future.

Let me know what I can do for you.

Sincerely,

John Bartholomew

John Bartholomew
Treasurer-Tax Collector

3rd Qtr. FY13

COUNTY OF HUMBOLDT

JOHN BARTHOLOMEW
TREASURER-TAX COLLECTOR

825 FIFTH STREET ROOM 125
EUREKA, CALIFORNIA 95501

PHONE: 707-476-2450
FAX: 707-445-7608
TOLL FREE: 877-448-6829
EMAIL: taxinfo@co.humboldt.ca.us

Subject: Interest Apportionment Rate, and Other Considerations September 30, 2013

Dear Honorable Board Members,

Your fund balances in the County Treasury from April through June 2013 (Fiscal 4th Quarter) earned an annualized interest rate of **.46%.** For comparison purposes, the LAIF (Local Agency Investment Fund) rate was **.24%.**

The Federal Reserve (Fed) created some unintended consequences over the last few months when Ben Bernanke commented that the Fed would likely begin tapering their bond buy-back program before the end of the year. Interest rates immediately began rising and stocks began falling in anticipation that the liquidity inducing QE-3 (Quantitative Easing) machine was going to stop pumping those extra dollars into the economy. Those extra dollars have fueled stock market gains and have kept interest rates low, so the mere prospect of tapering had consequences beyond what the Fed intended. 5-year agency bonds rose from about .95 in May to a high of 2.25% in August. The stock market also dropped about 5 % shortly after the news but then recovered. Other factors did contribute but "Fed Speak" was the primary driver for this volatility.

A growing economy needs consumers to consume, but as interest rates rise consumers borrow less (more unintended consequences). 30 year mortgage rates had risen to nearly 5% during the interest rate climb and this reduced new home purchases and other refinancing. In response the Fed has been back-pedaling from tapering QE-3 too soon and it is now believed that tapering won't begin until the beginning of the New Year. As a result yields have been falling and are now well off their highs from August.

We purchased a decent amount of higher yielding securities over the last several months so portfolio interest earnings will show improvement going forward. That said, state mandated management objectives remain Safety – Liquidity – Yield (SLY) which when properly adhered to will never show dramatic changes during any short period of time. However I believe we have seen the bottom for low interest rates, so portfolio earnings will gradually get better into the foreseeable future.

Let me know how I may be of service.

Sincerely,

John Bartholomew

John Bartholomew
Treasurer-Tax Collector

4th Qtr FY13