



## OFFICE OF THE TREASURER-TAX COLLECTOR

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September 9, 2005

TO: Board of Supervisors  
Thomas G. Mauk, County Executive Officer  
Treasury Oversight Committee  
Treasurer's Advisory Committee  
Participants

FROM: John M. W. Moorlach, C.P.A., CFP®  
Treasurer-Tax Collector

SUBJECT: Treasurer's Management Report for August 31, 2005

Attached please find the Treasurer's Management Report for the County of Orange for the month ended August 31, 2005. The information provided herein, including all charts, tables, graphs and numerical representations, is provided to readers solely as a general overview of the economic and market conditions which the Treasurer utilizes in making investment decisions. In addition, a complete version of this report is also available for download at our website [www.ocgov.com/treas/](http://www.ocgov.com/treas/).

### TREASURER'S REPORT

In order to assist you in reading this report, please note that the current balances reflect the investments recorded in the portfolios for each particular fund for the period ending August 31. Each money market fund has an average maturity of less than ninety days, with a net asset value (NAV) falling within the range of \$0.9950 and \$1.0050. The extended fund will have an average maturity of up to 549 days and a fluctuating NAV. All investments are marked to the market at the end of the reporting period due to the narrow valuation range prescribed by the Pools' Investment Policy Statement.

The reports reflect the par value (face value), the book value (cost to the County of the investment) and market value (the price of each security at the close of the market on the last trading day of the month). Market values are derived from the Bloomberg Professional Service, a premier provider of instant access to real-time and historical financial data. The difference between the market value and book value is the unrealized gain or (loss). The Detail Transaction Report Section is provided in compliance with California Government Code Section 53607, which requires that the Treasurer file such a report with the Board of Supervisors, from whom his investment authority has been delegated.

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PUBLIC INFORMATION OFFICER

## **APPORTIONMENT OF COMMINGLED POOL INTEREST EARNINGS**

We have prepared a forecast for the timing of the County Pool's July and August 2005 interest apportionments. We anticipate posting the July and August 2005 interest apportionments to participants' cash accounts in the County general ledger by approximately September 20 and October 19, 2005 respectively

## **CREDIT WATCH NEGATIVE AND APPROVED ELIGIBILITY LIST**

In the month of August, there were two changes to the Treasurer's approved eligibility list:

- 1) **Greenwich Capital Holdings, Inc.** was added
- 2) **Kitty Hawk Funding Corporation** was added

Please see the attached reports detailing the reasons the above actions were taken by the Treasurer. In addition, we have included two reports regarding issuers with developing credit considerations.

## **LEGISLATIVE UPDATE**

Two years ago, then-Assemblyman John Campbell carried AB 2182, our legislation to insert most of the SEC's Rule 2a-7 into the Government Code. This would provide County Treasurers with the necessary tools to operate a money market fund in compliance with industry standards. This bill was signed into law by then-Governor Gray Davis. After we opted to use this new code section, we realized that a small, but important, provision had not been included. Senator John Campbell has assisted us again and introduced, **SB 268**, correcting the minor oversight on our part.

This legislation allows up to twenty-five percent of the fair market value of the total assets in the County Treasurer's Money Market Investment Pool to be invested in the First Tier Securities of a single issuer for a period of one business day, up to three days (over a weekend), after the acquisition thereof. The securities of only one issuer may be invested according to this provision at a time.

The bill passed the State Senate and the State Assembly and on July 27, 2005, Governor Arnold Schwarzenegger signed it into law. **SB 268** will become effective January 1, 2006.

## **ECONOMIC OBSERVATIONS**

Future economic observations will be dominated by the effects of Hurricane Katrina. The recent devastation in the southeast will undoubtedly lead to large job losses and a

decrease in industrial production over the next few months. What transpires within the economy will be effected in large part by the amount of momentum the economy was carrying prior to the loss of lives and property in Louisiana, Mississippi and Alabama.

The manufacturing and service industries continue to expand at a modest pace. The majority of respondents to the Institute for Supply Management survey reported, "Things look positive for the next six months." The major concern was the price of oil and the effect it will have on the cost of materials and consumer spending.

Durable goods orders declined 4.9%. Included in this number was a decrease in aircraft orders, which dropped by 17.8%. Partially offsetting the decline were vehicle sales, which remained strong as GM and other manufacturers continued their employee pricing campaigns. Not withstanding the latest numbers, durable goods orders have expanded at a 5% annualized rate for the year.

Momentum in the economy hinges on consumers, and their ability to spend is beginning to be tested. For the second month in a row spending outpaced income. Supporting spending is a strong job market, rising incomes, low interest rates and steadily increasing home values. Undercutting it are higher fuel prices and the uncertainty of the aftermath from Katrina.

Although rumblings that recent events may delay tightenings, we continue to anticipate interest rate increases by the Federal Open Market Committee (FOMC) for the foreseeable future, and have positioned the portfolio accordingly.

#### **INTEREST RATE FORECAST**

At this time, the Treasurer's Investment Committee is estimating an interest yield of 3.50 percent for the portfolio during fiscal year 2005-2006.

Please call with any questions.

**ORANGE COUNTY TREASURER-TAX COLLECTOR  
EXECUTIVE SUMMARY  
SEPTEMBER 1, 2004 - AUGUST 31, 2005**

PERIOD ENDING - MONTH / YEAR	MONTH END MARKET VALUE	EARNINGS FOR MONTH	YIELD FOR MONTH	MONTH END WAM
<i>Current Month - August 2005</i>				
County Pool - Money Market Fund	\$ 1,578,219,688	\$ 4,715,019	3.50%	55
Educational Pool - Money Market Fund	\$ 2,070,796,012	\$ 5,904,293	3.46%	54
Extended Fund	\$ 1,520,846,244	\$ 3,938,232	3.05%	283
<i>July 2005</i>				
County Pool - Money Market Fund	\$ 1,704,788,689	\$ 5,134,069	3.30%	55
Educational Pool - Money Market Fund	\$ 2,097,386,634	\$ 5,856,164	3.28%	53
Extended Fund	\$ 1,508,289,288	\$ 3,904,570	3.03%	301
<i>June 2005</i>				
County Pool - Money Market Fund	\$ 1,965,578,445	\$ 4,990,924	3.14%	50
Educational Pool - Money Market Fund	\$ 2,023,992,462	\$ 5,583,846	3.12%	45
Extended Fund	\$ 1,511,124,166	\$ 3,878,491	3.19%	331
<i>May 2005</i>				
County Pool - Money Market Fund	\$ 2,037,630,751	\$ 5,810,214	3.03%	50
Educational Pool - Money Market Fund	\$ 2,265,226,445	\$ 5,796,023	3.02%	45
Extended Fund	\$ 1,461,308,895	\$ 3,678,833	2.93%	334
<i>April 2005</i>				
County Pool - Money Market Fund	\$ 2,525,745,315	\$ 6,147,555	2.75%	46
Educational Pool - Money Market Fund	\$ 2,257,464,691	\$ 4,846,316	2.86%	54
Extended Fund	\$ 1,473,151,187	\$ 3,347,206	2.88%	352
<i>March 2005</i>				
County Pool - Money Market Fund	\$ 2,180,872,669	\$ 4,697,490	2.54%	44
Educational Pool - Money Market Fund	\$ 1,926,986,398	\$ 4,667,362	2.69%	58
Extended Fund	\$ 1,458,405,678	\$ 2,736,449	2.50%	361
<i>February 2005</i>				
County Pool - Money Market Fund	\$ 2,196,425,147	\$ 4,007,233	2.42%	51
Educational Pool - Money Market Fund	\$ 2,066,308,967	\$ 4,000,571	2.51%	49
Extended Fund	\$ 1,202,129,910	\$ 2,388,483	2.57%	327
<i>January 2005</i>				
County Pool - Money Market Fund	\$ 2,075,448,860	\$ 4,185,020	2.23%	40
Educational Pool - Money Market Fund	\$ 2,115,951,386	\$ 4,171,061	2.38%	47
Extended Fund	\$ 1,204,140,670	\$ 2,494,236	2.36%	346
<i>December 2004</i>				
County Pool - Money Market Fund	\$ 2,343,955,532	\$ 4,687,719	2.16%	45
Educational Pool - Money Market Fund	\$ 2,255,014,780	\$ 3,557,833	2.18%	42
Extended Fund	\$ 1,202,982,249	\$ 2,258,249	2.28%	360
<i>November 2004</i>				
County Pool - Money Market Fund	\$ 2,123,655,398	\$ 3,408,306	1.95%	56
Educational Pool - Money Market Fund	\$ 1,712,428,294	\$ 2,780,374	1.94%	46
Extended Fund	\$ 1,139,862,075	\$ 2,001,364	2.19%	383
<i>October 2004</i>				
County Pool - Money Market Fund	\$ 2,023,230,278	\$ 2,904,486	1.77%	50
Educational Pool - Money Market Fund	\$ 1,781,919,176	\$ 2,775,580	1.75%	56
Extended Fund	\$ 1,118,360,510	\$ 1,910,398	2.05%	371
<i>September 2004</i>				
County Pool - Money Market Fund	\$ 1,911,882,760	\$ 2,558,198	1.60%	53
Educational Pool - Money Market Fund	\$ 1,944,305,632	\$ 2,563,511	1.58%	55
Extended Fund	\$ 1,036,998,629	\$ 1,811,920	2.09%	359
<b>CUMULATIVE BALANCES - 12 MONTHS</b>	<b>AVERAGE BALANCES</b>	<b>TOTAL EARNINGS</b>	<b>AVERAGE YIELD</b>	<b>AVERAGE WAM</b>
<i>September 1, 2004 - August 31, 2005</i>				
County Pool - Money Market Fund	\$ 2,055,619,461	\$ 53,246,233	2.53%	50
Educational Pool - Money Market Fund	\$ 2,043,148,406	\$ 52,502,933	2.56%	50
Extended Fund	\$ 1,319,799,958	\$ 34,348,431	2.59%	342