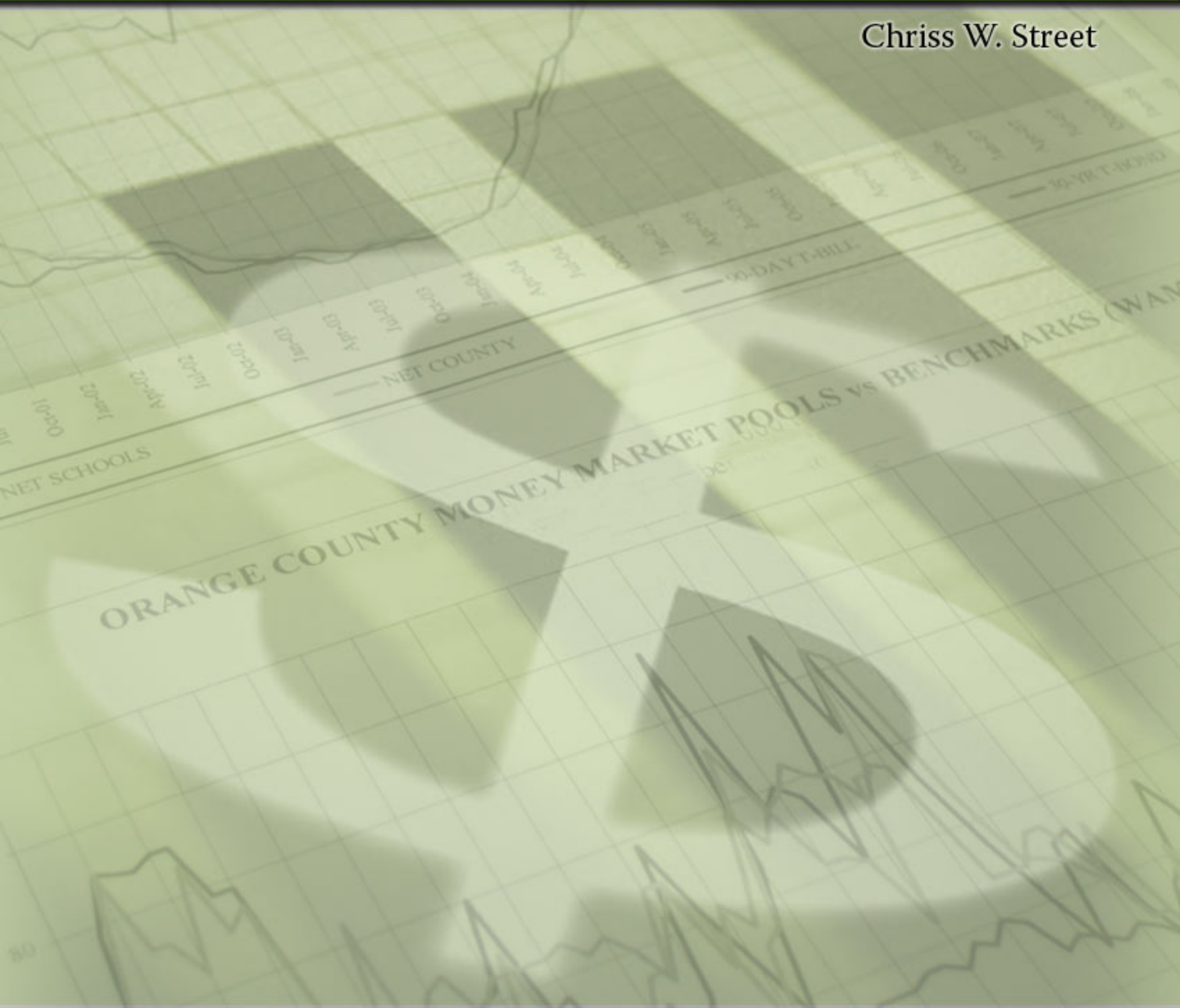




# Treasurer's Monthly Management Report

Chriss W. Street

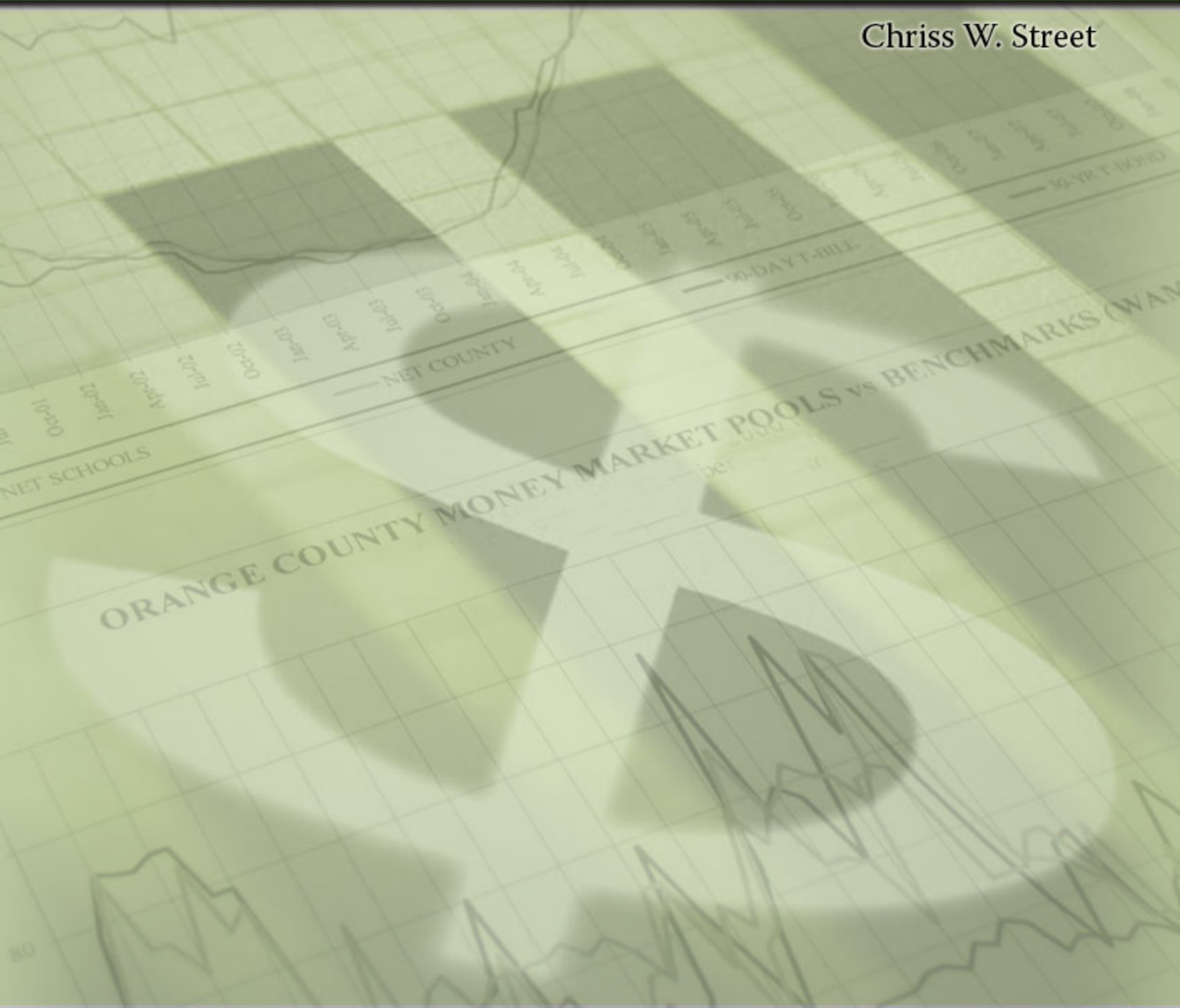


Month & Quarter Ended September 30, 2008



# Treasurer's Monthly Management Report

Chriss W. Street



Month & Quarter Ended September 30, 2008



# OFFICE OF THE TREASURER-TAX COLLECTOR

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**CHRISS W. STREET**  
TREASURER-TAX COLLECTOR

**PAUL C. GORMAN, C.P.A., CTP**  
CHIEF ASSISTANT TREASURER-TAX COLLECTOR

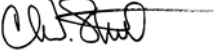
**JENNIFER BURKHART, CFA**  
ASSISTANT TREASURER-TAX COLLECTOR

**WALTER DANIELS**  
ASSISTANT TREASURER-TAX COLLECTOR  
*TAX COLLECTION*

**ROBIN RUSSELL**  
ASSISTANT TREASURER-TAX COLLECTOR  
*ADMINISTRATION*

September 15, 2008

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

FROM: Chriss W. Street   
Treasurer-Tax Collector

SUBJECT: Treasurer's Management Report for September 30, 2008

Attached please find the Treasurer's Management Report for the County of Orange for the month & quarter ended September 30, 2008. 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.ttc.ocgov.com](http://www.ttc.ocgov.com).

## 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 September 30th. 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 cost 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.

## APPORTIONMENT OF COMMINGLED POOL INTEREST EARNINGS

We have prepared a forecast for the timing of the County Investment Pool's August 2008 interest apportionment. We anticipate posting the August 2008 interest apportionment to participants' cash accounts in the County general ledger by approximately November 19, 2008.

## CREDIT OBSERVATIONS

### SIV Update

The position in Sigma was sold on September 17<sup>th</sup>. Over the life of the investment it returned a slight profit including interest earned.

### Whistlejacket Capital LLC

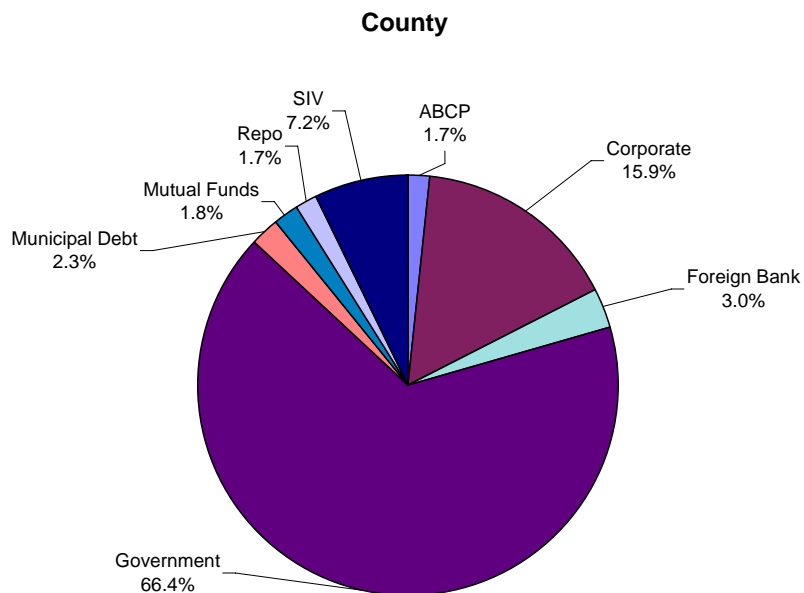
Deloitte is continuing to pursue a restructuring effort and has stated that they intend to distribute a portion of the cash build-up as a dividend distribution to note-holders within the next few weeks.

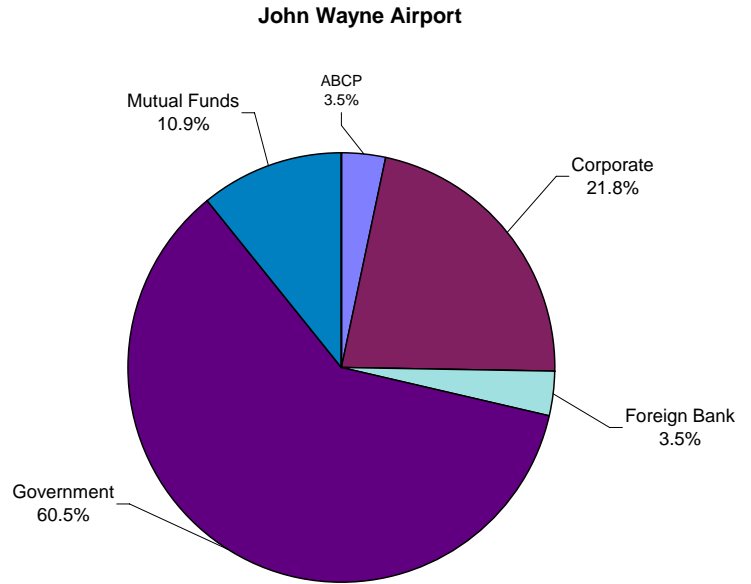
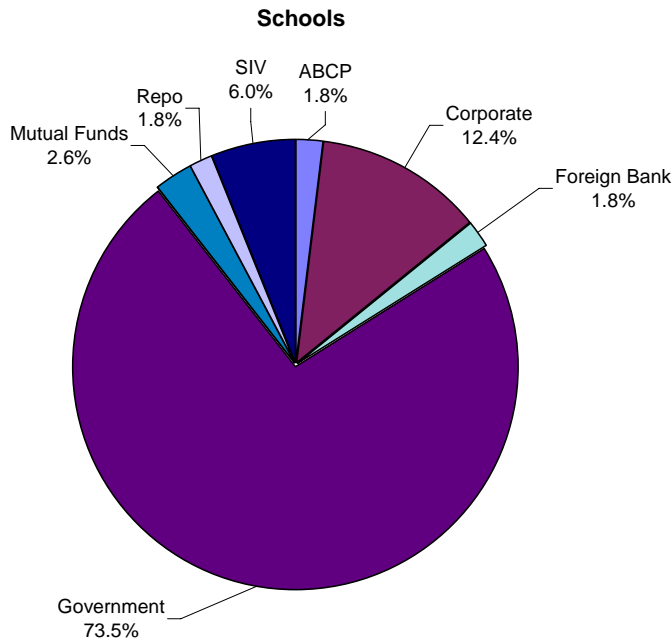
Pool participants hold \$50 million scheduled to mature on January 25<sup>th</sup>, 2009 and \$30 million scheduled to mature on January 26<sup>th</sup>, 2009.

## PORTFOLIO COMPOSITION

The following graphs represent the County, School and John Wayne Airport investment pools' composition by issuer type. The County and School pools include their portion of the Extended Fund (Exhibit 1).

### Exhibit 1:





## MARKET OBSERVATIONS

In recent days market pundits have stated that the “bottom” has been reached in this cycle. The United States Government has pledged \$700 billion to stabilize the nation’s banks. An additional \$200 billion more will be forth coming, if needed, for Fannie Mae and Freddie Mac. Not wanting to appear to be asleep at the switch, the Federal Reserve has pumped over \$1.5 trillion into the cash market in an effort to restore liquidity. However, one large issue seems to be running just below the radar. How has all of this market turmoil affected municipalities and their ability to fund their debt loads? Many municipalities have issued Variable Rate Demand Notes (VRDN). A good majority of them have an interest rate that resets weekly as well as a provision that allows the holder of the debt to “put” it back to the liquidity-providing bank for face value each time the rate is reset. This liquidity provision is intended to provide an extra level of safety to investors and also benefits the issuer by allowing them to pay lower interest rates. In the last few weeks, however, the annual interest rates on these “short-term” issues have quadrupled from below 2% to upwards of 6 to 8%.

As a result, many of these bonds have been put back to the liquidity banks, causing two critical events. First, the liquidity bank is now being paid the interest during the time period in which they hold the notes. In the event they are unable to re-sell these notes to another investor in the next 60 to 90 days, the interest rate will be reset by the bank to a much higher, punitive level. Second, the bonds will then convert to a "bank term loan", and the maturities will generally shorten from an average of 20 years to 5 years. This then requires that the municipality repay their debt in 10 lump sum payments every 6 months. For example, a municipality that originally issued a \$100 million bond with a 2% interest rate to be repaid in 20 years was responsible for paying \$2 million per year in interest payments. If it is held by the bank, the same bond could end up costing the municipality \$6 million in interest payments plus an additional \$20 million in debt repayment per year. That is a significant "unplanned" increase in debt service for a municipality to absorb.

Given the current uncertainty surrounding markets, the ability of these issuers to find new investors seems suspect at best. We predict there will be a massive restructuring of municipal debt over the next 90-120 days. In order to entice investors, rates will have to be higher than previously anticipated in the original deals.

The Orange County Treasurer's office intends to continue to take advantage of market events to enhance the total return on the portfolios we manage. Although we expect a slowing US economy with no dramatic changes in interest rates for the rest of this year, we remain vigilant for any surprises that can affect our returns.

### **Interest Rate Forecast**

The Treasurer's Investment Committee is currently estimating an average interest yield of 3.125% for 2008-2009.

The Treasurer's Office appreciates your continued confidence as well as the opportunity to provide you exemplary portfolio and cash management services in the future.

Please call Orange County Treasurer, Chriss W. Street, at 714-834-7625 with any questions.

**ORANGE COUNTY TREASURER-TAX COLLECTOR**

**EXECUTIVE SUMMARY**

**October 1, 2007 - September 30, 2008**

PERIOD ENDING - MONTH / YEAR	MONTH END MARKET VALUE	EARNINGS FOR MONTH	AVERAGE YIELD FOR MONTH	MONTH END WAM
<i>Current Month - September 2008</i>				
County Pool - Money Market Fund	\$ 1,633,383,931	\$ 3,733,815	2.64%	51
Educational Pool - Money Market Fund	\$ 1,707,114,565	\$ 3,660,952	2.52%	52
Extended Fund	\$ 2,333,839,343	\$ 3,483,307	1.84%	393
OC Extended Fund B	\$ 69,117,440	\$ -	N/A	117
<i>August 2008</i>				
County Pool - Money Market Fund	\$ 1,735,397,363	\$ 3,733,249	2.51%	47
Educational Pool - Money Market Fund	\$ 1,839,799,053	\$ 3,658,783	2.42%	45
Extended Fund	\$ 2,182,413,404	\$ 6,883,249	3.74%	477
OC Extended Fund B	\$ 69,117,440	\$ -	N/A	147
<i>July 2008</i>				
County Pool - Money Market Fund	\$ 1,787,284,123	\$ 3,899,411	2.41%	50
Educational Pool - Money Market Fund	\$ 1,797,691,062	\$ 3,698,983	2.38%	50
Extended Fund	\$ 2,104,561,539	\$ 7,010,329	3.73%	481
OC Extended Fund B	\$ 69,117,440	\$ -	N/A	178
<i>June 2008</i>				
County Pool - Money Market Fund	\$ 1,922,691,656	\$ 4,090,847	2.44%	33
Educational Pool - Money Market Fund	\$ 1,707,534,727	\$ 4,119,816	2.46%	33
Extended Fund	\$ 2,194,238,720	\$ 7,014,532	3.92%	503
OC Extended Fund B	\$ 69,117,440	\$ -	N/A	209
<i>May 2008</i>				
County Pool - Money Market Fund	\$ 2,052,055,391	\$ 4,328,189	2.42%	29
Educational Pool - Money Market Fund	\$ 2,208,622,434	\$ 4,646,915	2.45%	35
Extended Fund	\$ 2,188,235,769	\$ 7,248,040	3.81%	456
<i>April 2008</i>				
County Pool - Money Market Fund	\$ 2,313,762,854	\$ 5,648,143	2.66%	33
Educational Pool - Money Market Fund	\$ 2,328,134,710	\$ 4,593,731	2.62%	42
Extended Fund	\$ 2,281,021,020	\$ 7,592,402	4.15%	466
<i>March 2008</i>				
County Pool - Money Market Fund	\$ 2,015,431,220	\$ 3,791,696	2.34%	23
Educational Pool - Money Market Fund	\$ 1,952,925,095	\$ 5,148,299	3.03%	42
Extended Fund	\$ 2,298,149,876	\$ 11,180,561	5.77%	465
<i>February 2008</i>				
County Pool - Money Market Fund	\$ 2,058,205,103	\$ 5,924,621	3.66%	34
Educational Pool - Money Market Fund	\$ 2,012,588,527	\$ 5,953,697	3.74%	34
Extended Fund	\$ 2,118,888,102	\$ 8,620,437	5.17%	443
<i>January 2008</i>				
County Pool - Money Market Fund	\$ 1,977,674,788	\$ 8,208,591	4.56%	29
Educational Pool - Money Market Fund	\$ 2,132,664,074	\$ 8,270,478	4.53%	33
Extended Fund	\$ 2,176,737,787	\$ 9,396,820	5.13%	466
<i>December 2007</i>				
County Pool - Money Market Fund	\$ 2,241,143,754	\$ 10,399,742	4.91%	21
Educational Pool - Money Market Fund	\$ 2,347,118,458	\$ 7,819,755	4.83%	27
Extended Fund	\$ 2,205,742,474	\$ 10,088,589	5.21%	457
<i>November 2007</i>				
County Pool - Money Market Fund	\$ 1,982,354,313	\$ 7,788,881	5.05%	33
Educational Pool - Money Market Fund	\$ 1,609,274,201	\$ 6,711,960	5.00%	37
Extended Fund	\$ 2,331,861,281	\$ 10,381,129	5.35%	477
<i>October 2007</i>				
County Pool - Money Market Fund	\$ 1,782,577,124	\$ 6,883,821	5.35%	38
Educational Pool - Money Market Fund	\$ 1,694,769,373	\$ 7,831,908	5.22%	43
Extended Fund	\$ 2,402,836,096	\$ 11,058,084	5.28%	484
<b>October 1, 2007 - September 30, 2008</b>	<b>Annual Average</b>	<b>Total for Year</b>	<b>Annual Average</b>	<b>Annual Average</b>
County Pool - Money Market Fund	\$ 1,958,496,802	\$ 68,431,004	3.41%	35
Educational Pool - Money Market Fund	\$ 1,944,853,023	\$ 66,115,277	3.43%	39
Extended Fund	\$ 2,257,916,264	\$ 99,957,479	4.42%	476

**Month Ended September 2008**

	<b>Total Earnings</b>	<b>Yield</b>
County Pool - Money Market Fund	\$ 3,733,815	2.64%
Educational Pool - Money Market Fund	3,660,952	2.52%
Extended Fund	3,483,307	1.84%
Total	<u>\$ 10,878,074</u>	

**Quarter Ended September 30, 2008**

County Pool - Money Market Fund	\$ 11,366,475	2.52%
Educational Pool - Money Market Fund	11,018,717	2.44%
Extended Fund	17,376,885	3.10%
Total	<u>\$ 39,762,077</u>	

**Year Ended September 30, 2008**

County Pool - Money Market Fund	\$ 68,431,004	3.41%
Educational Pool - Money Market Fund	66,115,277	3.43%
Extended Fund	99,957,479	4.42%
Total	<u>\$ 234,503,761</u>	













































































































































































