## OFFICE OF THE TREASURER-TAX COLLECTOR



HALL OF FINANCE & RECORDS 12 CIVIC CENTER PLAZA, SUITE G76 Post Office Box 4515 SANTA ANA, CA 92701 www.tax.ocgov.com

September 8, 2006

TO: **Board of Supervisors** 

Thomas G. Mauk, County Executive Officer

Treasury Oversight Committee Treasurer's Advisory Committee

**Participants** 

John M. W. Moorlach, C.P.A., CFP® FROM:

Treasurer-Tax Collector

Treasurer's Management Report for August 31, 2006 SUBJECT:

Attached please find the Treasurer's Management Report for the County of Orange for the month ended August 31, 2006. 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/.

## 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.

JOHN M.W. MOORLACH, C.P.A., CFP® TREASURER-TAX COLLECTOR

CHRISS W. STREET ASSISTANT TREASURER-TAX COLLECTOR

PAUL C. GORMAN, C.P.A., CTP DEPUTY TREASURER

WALTER DANIELS DEPUTY TAX COLLECTOR

ROBIN RUSSELL DEPUTY TREASURER-TAX COLLECTOR ADMINISTRATION

CLARISSA ADRIANO-CERES DEPUTY TREASURER-TAX COLLECTOR INFORMATION TECHNOLOGY

BRETT R. BARBRE DEPUTY TREASURER-TAX COLLECTOR PUBLIC INFORMATION OFFICER

## APPORTIONMENT OF COMMINGLED POOL INTEREST EARNINGS

We have prepared a forecast for the timing of the County Pool's July 2006 and August 2006 interest apportionments. We anticipate posting the July 2006 and August 2006 interest apportionments to participants' cash accounts in the County general ledger by approximately September 23, 2006 and October 18, 2006, respectively.

## **CHANGES IN ELIGIBLE CREDITS**

In the month of August, there were no changes to the Treasurer's approved eligibility list.

## THE PUBLIC INTEREST, JUNE 2006

Jeff Flynn of TRACS Financial Research, a noted national authority on state investment pools, recently published the attached editorial, titled "State of Mind – A Tale of Two Counties." We provided it for your reading pleasure, as it provides excellent insights into the investment arena that we are in. While we are not comfortable about casting dispersion on any of our neighboring counties, the op-ed piece does use our Money Market Investment Pool (MMIP) as a benchmark for his observations.

Mr. Flynn has done a significant amount of work in the area of state pools and I had recommended that the California Association of County Treasurers and Tax Collectors retain his services on a similar basis for our 58 counties. Regretfully, a majority of our members were uncomfortable with the idea of being compared. After reading his analysis you can understand their apprehension.

His document contrasts our MMIP with that of San Diego County and the Local Agency Investment Fund (LAIF) provided by the Treasurer of the State of California. His conclusion? "Those County Pools like Orange County [who] have chosen the rated route [are] outperforming LAIF and sleeping like babies."

He also compared us to industry funds and concluded, "the AAA rated Orange County Pool yield over the past year outperformed the yields of two top ranked AAA [institutional] money market funds found on the iMoneyNet website, Barclays, and Credit Suisse, both of which are 2a-7 type money funds." As of June 30, 2006 "Orange County ranks in the top 6 [government investment pools] in the nation."

It is always nice to get an independent affirmation of the job we are doing. Our money market funds have been performing in the top quartile of its peers. Our extended pool has also been doing well, but has suffered from the use of longer weighted average maturities during the last 18 months of interest rate tightenings by the Federal Open Market Committee (FOMC). But it is slowly catching up.

#### **ECONOMIC OBSERVATIONS**

August marked a month of little net change. The main market concerns of a pronounced housing slowdown and low consumer confidence were offset by seemingly contradictory strength in consumer spending and a continued pickup in business outlays.

Treasurer's Monthly Management Report September 8, 2006 Page 3

The Federal Open Market Committee's (FOMC) preferred gauge of price inflation, the core Personal Consumption Expenditures (PCE) index increased to 2.4%. This is on the high side of the Fed's preferred range of 1% to 2%. The FOMC stated in their release on August 8<sup>th</sup>, "... inflation pressures seem likely to moderate over time..." as they believe the economy has begun and will continue to slow over the next several months. One of the key reasons the FOMC believes the economy will slow of its own accord has been the pronounced slow down in the real estate market. New home sales and existing home sales where down 4.30% and 4.10% respectively from the prior month. The backlog of unsold homes in the United States has increased to more than 7 months supply. The industry usually considers a 6 month supply to be optimal.

There were some bright spots in the economy. Labor has continued to gain a slightly bigger slice of the profit pie. Consequently, personal consumption, outside of housing, has remained strong. Business spending has picked up over the last few months and remains strong in all categories. One piece to the puzzle that can have a big impact on consumer spending and sentiment is oil. The price of oil has fallen from a high of over \$77 to a current price of around \$67.

We sense a need for the FOMC to stay neutral on interest rate tightening for a brief time. We will continue to monitor economic and financial data as it becomes available. Our professional investment staff is dedicated to providing excellence to the taxpayers of the County of Orange. We appreciate your continued confidence in us and respect the opportunity afforded us to serve you in the future.

## **Interest Rate Forecast**

At this time, the Treasurer's Investment Committee is estimating an interest yield of 5.00 percent for the portfolio during fiscal year 2006-2007.

Please call with any questions.

# ORANGE COUNTY TREASURER-TAX COLLECTOR EXECUTIVE SUMMARY

September 1, 2005 - August 31, 2006

PERIOD ENDING - MONTH / YEAR	N	MONTH END	E	ARNINGS FOR MONTH	AVERAGE YIELD FOR MONTH	MONTH END WAM
Current Month - August 2006						
County Pool - Money Market Fund	\$	1,614,920,265	\$	6,811,792	5.40%	63
		2,035,802,849		9,180,864	5.38%	64
Educational Pool - Money Market Fund	\$		\$			
Extended Fund	\$	1,895,848,400	\$	7,712,637	4.60%	414
July 2006						
County Pool - Money Market Fund	\$	1,584,726,279	\$	7,778,613	5.29%	57
Educational Pool - Money Market Fund	\$	2,135,846,766	\$	8,849,641	5.24%	50
Extended Fund	\$	1,777,440,895	\$	6,516,407	4.45%	376
June 2006						
County Pool - Money Market Fund	\$	1,802,431,285	\$	7,644,477	5.18%	55
Educational Pool - Money Market Fund	\$	1,877,538,725	\$	8,917,379	5.09%	50
Extended Fund	\$	1,695,053,655	\$	6,274,458	4.48%	335
May 2006						
County Pool - Money Market Fund	\$	1,818,302,640	\$	8,544,307	4.98%	29
Educational Pool - Money Market Fund	\$	2,235,054,471	\$	9,348,439	4.93%	39
Extended Fund	\$	1,713,197,862	\$	6,308,786	4.27%	317
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April 2006	Φ.	0.000.004.054	φ	0.704.405	4.000/	٥٦
County Pool - Money Market Fund	\$	2,369,981,051	\$	9,761,165	4.80%	25
Educational Pool - Money Market Fund	\$	2,240,609,358	\$	8,117,151	4.81%	40
Extended Fund	\$	1,702,966,857	\$	5,973,981	4.13%	287
March 2006						
County Pool - Money Market Fund	\$	1,953,949,036	\$	7,465,041	4.60%	30
Educational Pool - Money Market Fund	\$	1,975,163,364	\$	8,072,937	4.60%	47
Extended Fund	\$	1,691,008,075	\$	5,134,439	3.82%	267
February 2006						
County Pool - Money Market Fund	\$	1,928,205,781	\$	6,203,227	4.48%	32
Educational Pool - Money Market Fund	\$	2,156,578,419	\$	7,413,028	4.47%	54
Extended Fund	\$	1,542,707,130	\$	4,883,504	3.97%	263
January 2006	Ψ	1,012,707,100	Ψ	4,000,004	0.01 70	200
	¢	1,730,807,314	\$	7 200 000	4 220/	20
County Pool - Money Market Fund	\$			7,288,808	4.33%	28
Educational Pool - Money Market Fund	\$	2,229,871,926	\$	7,906,726	4.30%	38
Extended Fund	\$	1,667,664,958	\$	5,031,447	3.52%	267
December 2005						
County Pool - Money Market Fund	\$	2,273,556,493	\$	8,272,353	4.20%	36
Educational Pool - Money Market Fund	\$	2,251,869,796	\$	7,013,914	4.17%	45
Extended Fund	\$	1,666,951,795	\$	4,806,291	3.44%	264
November 2005						
County Pool - Money Market Fund	\$	1,764,219,017	\$	5,431,434	3.96%	36
Educational Pool - Money Market Fund	\$	1,795,317,372	\$	5,763,233	3.97%	55
Extended Fund October 2005	\$	1,616,280,601	\$	4,734,849	3.46%	280
County Pool - Money Market Fund	\$	1,587,619,387	\$	4,691,500	3.77%	54
Educational Pool - Money Market Fund	\$	1,834,752,304	\$	6,158,578	3.77%	63
Extended Fund	\$	1,658,630,151	\$	4,722,715	3.32%	297
September 2005	T			, , , , ,		
County Pool - Money Market Fund	\$	1,511,927,846	\$	4,679,952	3.63%	52
Educational Pool - Money Market Fund	\$	1,967,481,625	\$	5,920,243	3.61%	61
Extended Fund	\$	1,585,513,188	\$	3,944,771	3.11%	304
CUMULATIVE BALANCES - 12 MONTHS		AVERAGE BALANCES		TOTAL EARNINGS	AVERAGE YIELD	AVERAGE WAM
August 1, 2005 - July 31, 2006						
County Pool - Money Market Fund	\$	1,828,387,199	\$	84,572,671	4.55%	41
Educational Pool - Money Market Fund	\$	2,061,323,915	\$	92,662,134	4.53%	50
Extended Fund	\$	1,684,438,631	\$	66,044,284	3.88%	306