COUNTY OF ORANGE

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January 10, 2000

TO: Board of Supervisors
                  Michael Schumacher, 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 December 31, 2000

Attached please find the Treasurer's Management Report for the County of Orange for the month and quarter ended December 31, 2000. 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.

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 December 31, 2000. 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). 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 Pool's October and November 2000 interest apportionments. We anticipate posting October and November interest apportionments to participants' cash accounts in the County general ledger on January 22 and January 30 respectively.

TREASURER'S CONFERENCE

The Third Annual Orange County Treasurer's Conference will be held Thursday, February 1, at the Irvine Marriott. Titled "*2001 – A California Odyssey,*" this year's one-day financial workshop promises to be our best one yet. The enclosed brochure details the conference's speakers and topics.

INVESTMENT POLICY STATEMENT

The Board of Supervisors approved the Treasurer's Investment Policy Statement (IPS) for 2001 at their December 19 meeting. California Government Code requires the IPS to be annually reviewed by the Treasury Oversight Committee and approved by the Board of Supervisors.

The only change to the IPS, extending the maximum maturity of investments in commercial paper to 270 days, was a result of legislative changes in California Government Code.

ECONOMIC OBSERVATIONS

Economic releases continued to fuel the belief that the Federal Open Market Committee (FOMC) was not very far from cutting interest rates. At their December 19 meeting, the FOMC reinforced this sentiment by dramatically shifting monetary policy to an easing bias only five weeks after affirming its long-held tightening bias.

The weakening economy has even started to take its toll on the almighty consumer. Slower job growth, rising jobless claims, the declining stock market, and higher energy costs are hitting where it hurts, the pocketbook. Eroding consumer consumption is reflected in the not so jolly holiday shopping season and unseasonable auto industry production cuts and layoffs.

Financial markets reacted decisively to the relentless inflow of sales and earnings warnings from corporate America by dumping equity positions in record numbers. These sales proceeds have to go somewhere and typically are repositioned into cash equivalents. The compounding effect on the fixed income markets of this "safe haven" investing and an impending FOMC rate ease caused interest rate yields to plunge.

The FOMC almost always makes interest rate changes at regularly scheduled meetings, which usually occur every six weeks. However, amid the cries for inter-meeting action, the FOMC reduced interest rates 50-basis points on January 3. The next meeting on January 31 is expected to result in an additional 25-basis point decrease.

The Investment Management Committee has established a portfolio strategy that will seek attractive opportunities for extending the average maturity when possible. We are currently positioned to meet short-term liquidity needs.

EDISON INTERNATIONAL DOWNGRADE

One of our holdings in the Educational Pool, Edison International, is a key player in the energy-related financial crisis facing California's public utilities. Both Moody's and Standard & Poor's have reduced their credit rating on Edison to the lowest possible investment grade. Our Investment Management Committee has been closely following the developments in the utility markets and has determined to hold these securities until maturity.

Recently, Governor Davis said it would be "irresponsible" to let the utilities go bankrupt and called on the Legislature to enact a more immediate solution. We believe the risk of a partial or complete default by Edison could be compared to that of Orange County's bonds during the bankruptcy. Although liquidating at a large discount is an option, it is not warranted as we anticipate our principal will be paid in full at maturity.

Our current exposure is $40 million, with $20 million maturing on January 31 and the other $20 million maturing on July 18. Please call if you have any questions.