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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 February 28, 2006

Attached please find the Treasurer's Management Report for the County of Orange for the month ended February 28, 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 February 28. 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.

APPORTIONMENT OF COMMINGLED POOL INTEREST EARNINGS

We have prepared a forecast for the timing of the County Pool's January 2006 and February 2006 interest apportionments. We anticipate posting the January 2006 and February 2006 interest apportionments to participants' cash accounts in the County general ledger by approximately March 15, 2006 and April 3, 2006, respectively.

CREDIT WATCH NEGATIVE AND APPROVED ELIGIBILITY LIST

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

The following was removed from the CP/ MTN Eligibility list:

- 1) **Sherwin-Williams Company**

The following were added to the CP/MTN and Foreign Bank Eligibility lists:

- 2) **Danske Corporation (CP)**
- 3) **Nordea NA Inc. (CP)**
- 4) **Nordea Bank Finland (YCD)**

Please see the attached report detailing the reasons the above action was taken by the Treasurer.

ECONOMIC OBSERVATIONS

In the last month the market consensus has changed its forecast from anticipating a leveling out of short-term rates to anticipation for additional rate increases. Current interest rate levels continue to factor in an increase on March 28th, but are also anticipating an additional two tightenings before July.

The two main drivers of this change are continued strength in the manufacturing and consumption sectors of the economy. Manufacturing has continued to expand since June of 2003 and last month was no exception. Core capital goods (assets used to produce other goods) orders are up 6.5% annualized and the rate has accelerated to nearly 20% in just the past three months. In addition, factories continued to hire additional staff for the fourth month in a row.

Consumption came in strong. It is becoming apparent that the seasonal adjustments have not adapted to account for the shift in holiday sales reflecting the growing popularity of

gift cards. Gift cards push the final sale out to January and February, when the cards are redeemed, not when they were purchased in December.

One anticipated change during the current expansion is a decline in productivity. As an expansion continues business begins to exhaust its available pool of qualified workers. As this transpires a greater percentage of profits begin to accumulate to labor in the form of higher compensation. This increase in wealth fuels additional consumption and may put upward pressure on prices. Last quarter nonfarm productivity fell for the first time since 2001 and labor costs increased 3.3%.

The data continues to depict an economy that is expanding at an above trend pace. However, after 14 consecutive Federal Reserve Open Market Committee tightenings, cracks are beginning to appear. We'll see if potential counter forces have an impact in next month's economic observations.

Interest Rate Forecast

At this time, the Treasurer's Investment Committee is estimating an interest yield of 3.75 percent for the portfolio during fiscal year 2005-2006.

Please call with any questions.