



COUNTY OF ORANGE

**OFFICE OF THE TREASURER-TAX COLLECTOR**

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December 10, 2004

**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 November 30, 2004

Attached please find the Treasurer's Management Report for the County of Orange for the month ended November 30, 2004. 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 <http://www.oc.ca.gov/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 November 30. 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 October and November 2004 interest apportionment. We anticipate posting the October and November interest apportionment to participants' cash accounts in the County general ledger by approximately December 15 and December 22, 2004.

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

In the month of November, there were four changes to the Treasurer's approved investments:

- 1) **Asset Portfolio Funding Corp** was removed
- 2) **AIM STIT Liquid Assets Portfolio** was added
- 3) **Barclays Global Investors Prime Money Market Fund** was added.
- 4) **Goldman Sachs Financial Square Money Market Fund** was added

## **PROPOSED CHANGES TO THE INVESTMENT POLICY STATEMENT (IPS)**

Every December the Treasurer submits our Investment Policy Statement (IPS) to the Board of Supervisors (BOS) for its annual review. Our Treasurer's Investment Committee (TIC) submits proposed IPS improvements to the Treasurer's Advisory Committee (TAC). The TAC is an informal kitchen-cabinet to the Treasurer and is comprised of industry members and participants. After the TAC has approved any changes the IPS is then presented to the Treasury Oversight Committee (TOC) for its approval.

Both the TAC and TOC meet on a quarterly basis, or more often if needed. Accordingly, the IPS gets a thorough analysis before it is submitted to the BOS. Next year's IPS will be voted on by the BOS on December 21.

A copy of the BOS Agenda Item supporting documentation is provided in this report. The major changes this year fall into four categories:

1. Grammatical improvements - Found on pages 3, 7,8, 10, 12 and 13.
2. Expansion on specific investment opportunities - We have always been willing to provide longer-term investment portfolios for departments that request them. However, adding a paragraph that starts on page 3 will make it clearer that this investment opportunity is encouraged by the BOS.
3. Clarification on investment rating requirements - This can be found on page 9. We have always invested in triple-A ("AAA") rated paper in our Extended Fund. We are now documenting it in our IPS. We provide our Weighted Average Credit Rating (WACR) chart in our monthly Treasurer's Management Reports. We are now documenting how it is calculated in our IPS.

4. Incremental increase in investment-type limitations - We are increasing the maximum amount of Commercial Paper that can be held in the Money Market Funds at any one time from 40 percent to 45 percent. And, if the WACR is at a double-A minus ("AA-") or higher level, then the holdings can go to no more than 50 percent. However, the combined holdings in both the money market funds and the Extended Fund may not exceed 40 percent. Accordingly, this allows for acquiring more Commercial Paper when market conditions warrant doing so, but it is reigned in with tighter overall restrictions.

The Treasurer is appreciative for the TIC, TAC and TOC in all of their lengthy and in-depth discussions on the above improvements.

## **ECONOMIC OBSERVATIONS**

The financial markets gradually priced in the Federal Open Market Committee's (FOMC) November 10 tightening of 25 basis points before the actual meeting. However, interest rates have remained flat for the last 30 days. Since the FOMC meets again on December 14 and is, once again, expected to increase interest rates, the financial markets reluctance to price in this 25 basis point tightening is puzzling. Unlike October, the economic results for November have not been consistently positive. Examples of November's mixed economic signals include:

- Stable initial jobless claims vs. The creation of new jobs dropped
- Producer prices less energy costs stabilized vs. Durable goods orders declined
- Stable consumer prices encouraged buying vs. Consumer confidence dropped
- Robust housing market once again at record levels vs. Declining housing construction
- Increase in 3<sup>rd</sup> Quarter Gross Domestic Product vs. Leading indicators down for 5<sup>th</sup> month
- Chicago Purchasing Managers' index continues to climb vs. Institute of Supply Managers' index has been in a slump all year

Questions about the economy's health are surfacing. Most economists attribute the slump to the November holidays and record-high energy costs. December has usually finished the year with a bang. Even with the financial markets appearing tepid, the Treasurer's Investment Committee is unanimous that another 25 basis points is imminent.

## **INTEREST RATE FORECAST**

The estimated interest rate forecast for the fiscal year 2004-2005 is increased to 2.00 percent.

Please call if you have any questions.