

OFFICE OF THE TREASURER-TAX COLLECTOR



HALL OF FINANCE & RECORDS
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July 12, 2007

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The Honorable Chris Norby
Chair, Board of Supervisors
10 Civic Center Plaza, Fifth Floor
Santa Ana, CA 92701

Dear Supervisor Norby:

As the elected Treasurer-Tax Collector of the County of Orange I am pleased to submit my first Annual Report to our Board of Supervisors, Fund Participants and taxpayer clients for the fiscal year ended June 30, 2007.

This monthly report sets forth the statistical and financial information relating to the operations of the Treasurer's office and the \$6.3 billion of fixed income investments currently under management. We provide this comprehensive report in an effort to fully disclose our investment activity and the results of our performance as compared to industry benchmarks and historical trends.

The Orange County Treasurer is a major player in the fixed income markets with over \$100 billion of annual securities purchases. Over the last year we have worked hard to get Orange County's message out to Wall Street about the services and products Main Street needs and more particularly creating connections with brokers to improve our access to the most competitive inventories and information available in the fixed income market.

Investment Pool Ratings

In meeting the Treasurer's fiduciary duty to investment pool participants and all Orange County citizens, we invest with safety as our primary focus, with meeting the liquidity needs of our participants as our secondary focus, and lastly to achieve a yield competitive with the market. We continue to retain the highest possible ratings on the County and Educational Investment Pools: Aaa MR1 (Moody's) and AAA/V1+ (Fitch).

Market Observations

The investment banker gravy train continued to roll along as Blackstone's public offering valued the firm at \$32.0 billion and the two founders were able to pocket \$2.3 billion. This was just one more record underwriting event in the spectacular year Wall Street is having.

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The Dow Jones Industrial average slid slightly this month as concerns regarding the growth potential for the economy continued to surface. Bear Stearns's plan to bailout a \$3.2 billion hedge fund added additional worries that has bleed over into the bond market.

The bond market rallied slightly as investors moved to lock in higher rates on the most recent backup in rates. The back up has been broad based as it looks like the Fed's forecast for moderate growth and a gradual retreat of inflation seems to be unfolding. Manufacturing has rebounded as inventories have been replenished. This is the main component that has forced the market to reevaluate their interest rate forecasts and steepened the yield curve.

Your TTC team anticipates yields will trade in the current range over the near term and expect lower rates next year. Consequently, we continue to selectively extend the duration of our portfolios on the current interest rate backup.

The Treasurer's Office appreciates your continued confidence and looks forward to providing you exemplary portfolio and cash management services in the future.

Interest Rate Forecast

The Treasurer's Investment committee is currently estimating an average rate of return of 4.70 percent for the portfolio during fiscal year 2007-2008.

Expense Ratio

Due to our efficient management of Treasury overhead expenses and as a result of the increasing balances under management, we were able to reduce our expense ratio since July 1, 2006, from 11.25 basis points to 10.00 basis points. We continue to be committed to providing the highest quality services at the most reasonable administration cost.

Compliance

Monitoring the investment policy statement (IPS) compliance and the rectification of any noncompliance issues is documented in an internal noncompliance report summary and included in our monthly reports. Moreland and Associates, Inc.'s quarterly reports on compliance are also provided in the monthly reports promptly after receipt.

Apportionment of Commingled Pool Interest Earnings

We have prepared a forecast for the timing of the County Investment Pool's May and June 2007 interest apportionments. We anticipate posting the May and June 2007 interest apportionments to participants' cash accounts in the County general ledger by approximately July 30 and August 22, 2007, respectively.

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Changes in Eligible Credits

In the month of June, there was one change to the Treasurer's approved eligibility list.

The following was added to the CP/ MTN Eligibility list:

1) **Alpine Securitization Corp**

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

Increased Revenue and Decreased Net County Cost

In an environment of ever rising costs the, the Treasurer-Tax Collector (TTC) has an aggressive goal of continually reducing our \$5.5 million Net County Cost (NCC) burden to the taxpayers of the County of Orange. The team is focused achieve very significant reductions in NCC through operating efficiencies and aggressively reviewing all of our fees and cost reimbursement arrangements to ensure full cost recovery wherever possible. In the past fiscal year, my team was successful in holding down costs by over \$1 million and the TTC has voluntarily asked that our NCC budget be reduced by 30% (\$1.5 million) in NCC for the 2007/2008 fiscal year.

To provide further insight regarding our operations, strategic goals, and key outcome indicators we have included a copy of our FY 2007-2008 Budget Workbook as an attachment to this report (See Section XVI).

Increased Operating Efficiencies

We continue to improve upon the excellent systems put into place by my predecessor, John Moorlach. Our strategic goal of providing efficient and effective service to our constituents is evidenced by the following few examples of enhancements in operating performance:

- Decreased the average wait times for tax information calls by 53% and 74% over the prior year for the first and second secured tax installments respectively
- Increased tax collections on bankruptcies by ten times over the prior year
- Eliminated over 400 non productive reports in our ATS system thereby saving countless untold hours of IT maintenance and support
- Saved \$150,000 annually by consolidation of 200,000 pieces of mail.

Remittance Processing

Consistent with our goal of reducing our Net County Cost we are close to implementing a Memorandum of Understanding with HCA on behalf of Animal Care Services to provide

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printing, mailing, billing and payment processing services. This creative agreement will allow the TTC to further cover our sunk cost in remittance equipment and continue to perfect our state-of-the-art banking services.

Property Tax Management System

The Treasurer-Tax Collector, the Auditor-Controller, and the Clerk of the Board continue to partner in the development of the new Property Tax Management System. A needs assessment to document major processes and business rules has been completed.

Treasurer's Report

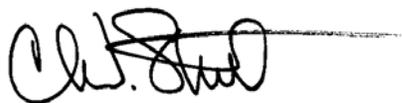
In order to assist you in reading this report, please note that the current balances reflect the investments recorded in the portfolios for each particular fund for the period ending June 30. Each money market fund has an average maturity of less than ninety days, with a net asset value (NAV) falling 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.

Conclusion

The Treasurer-Tax Collector will continue to pursue all of our year 2007 service plan goals in support of County Strategic priorities. The Department will also continue to provide an effective, responsive and competitive organizational and operating structure. Staff will work diligently to meet our core business responsibilities of tax collection, cash handling, depositing, and investing while supporting the successful implementation of new corporate programs initiatives.

Very truly yours,

A handwritten signature in black ink, appearing to read "Chriss W. Street", is written over a horizontal line. A vertical red line is positioned to the right of the signature.

Hon. Chriss W. Street

Orange County Treasurer-Tax Collector

**ORANGE COUNTY TREASURER-TAX COLLECTOR
EXECUTIVE SUMMARY
July 1, 2006 - June 30, 2007**

PERIOD ENDING - MONTH / YEAR	MONTH END MARKET VALUE	EARNINGS FOR MONTH	AVERAGE YIELD FOR MONTH	MONTH END WAM
<i>Current Month - June 2007</i>				
County Pool - Money Market Fund	\$ 1,877,130,515	\$ 8,120,941	5.40%	54
Educational Pool - Money Market Fund	\$ 1,796,807,395	\$ 9,202,118	5.37%	58
Extended Fund	\$ 2,360,816,509	\$ 10,541,871	5.29%	496
<i>May 2007</i>				
County Pool - Money Market Fund	\$ 2,038,485,187	\$ 9,453,530	5.38%	56
Educational Pool - Money Market Fund	\$ 2,253,481,882	\$ 11,347,317	5.35%	55
Extended Fund	\$ 2,269,898,637	\$ 9,010,127	5.11%	422
<i>April 2007</i>				
County Pool - Money Market Fund	\$ 2,310,098,771	\$ 11,096,800	5.38%	51
Educational Pool - Money Market Fund	\$ 2,584,211,525	\$ 10,202,892	5.36%	53
Extended Fund	\$ 2,037,558,524	\$ 9,230,167	5.25%	463
<i>March 2007</i>				
County Pool - Money Market Fund	\$ 1,800,423,404	\$ 7,762,592	5.30%	58
Educational Pool - Money Market Fund	\$ 2,156,514,102	\$ 9,805,516	5.29%	50
Extended Fund	\$ 2,257,154,399	\$ 9,622,420	4.99%	444
<i>February 2007</i>				
County Pool - Money Market Fund	\$ 1,707,506,698	\$ 6,691,832	5.40%	69
Educational Pool - Money Market Fund	\$ 2,273,724,523	\$ 8,707,709	5.35%	56
Extended Fund	\$ 2,278,912,413	\$ 9,587,935	5.43%	441
<i>January 2007</i>				
County Pool - Money Market Fund	\$ 1,702,220,169	\$ 9,037,751	5.38%	51
Educational Pool - Money Market Fund	\$ 2,171,852,117	\$ 9,951,822	5.31%	40
Extended Fund	\$ 2,250,742,762	\$ 9,239,897	4.92%	447
<i>December 2006</i>				
County Pool - Money Market Fund	\$ 2,459,854,086	\$ 11,628,814	5.38%	44
Educational Pool - Money Market Fund	\$ 2,364,291,301	\$ 9,283,335	5.37%	42
Extended Fund	\$ 1,997,281,928	\$ 8,257,453	4.92%	453
<i>November 2006</i>				
County Pool - Money Market Fund	\$ 1,834,087,894	\$ 7,897,248	5.39%	61
Educational Pool - Money Market Fund	\$ 1,913,967,546	\$ 8,281,668	5.36%	62
Extended Fund	\$ 1,971,569,719	\$ 8,216,199	4.99%	457
<i>October 2006</i>				
County Pool - Money Market Fund	\$ 1,792,188,272	\$ 7,569,048	5.39%	57
Educational Pool - Money Market Fund	\$ 1,923,791,277	\$ 9,185,841	5.35%	60
Extended Fund	\$ 1,944,745,354	\$ 7,841,267	4.80%	483
<i>September 2006</i>				
County Pool - Money Market Fund	\$ 1,615,083,076	\$ 7,236,374	5.41%	60
Educational Pool - Money Market Fund	\$ 1,948,311,050	\$ 8,808,477	5.40%	66
Extended Fund	\$ 1,903,965,350	\$ 7,429,388	4.78%	454
<i>August 2006</i>				
County Pool - Money Market Fund	\$ 1,614,920,265	\$ 6,811,792	5.40%	63
Educational Pool - Money Market Fund	\$ 2,035,802,849	\$ 9,180,864	5.38%	64
Extended Fund	\$ 1,895,848,400	\$ 7,712,637	4.60%	414
<i>July 2006</i>				
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
CUMULATIVE BALANCES - 12 MONTHS	AVERAGE BALANCES	TOTAL EARNINGS	AVERAGE YIELD	AVERAGE WAM
<i>July 1, 2006 - June 30, 2007</i>				
County Pool - Money Market Fund	\$ 1,861,393,718	\$ 101,085,334	5.38%	57
Educational Pool - Money Market Fund	\$ 2,129,883,528	\$ 112,807,200	5.35%	55
Extended Fund	\$ 2,078,827,907	\$ 103,205,767	4.96%	446