



## OFFICE OF THE TREASURER-TAX COLLECTOR

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April 8, 2005

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 March 31, 2005

Attached please find the Treasurer's Management Report for the County of Orange for the month and quarter ended March 31, 2005. 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://tax.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 March 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.

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PUBLIC INFORMATION OFFICER

## **APPORTIONMENT OF COMMINGLED POOL INTEREST EARNINGS**

We have prepared a forecast for the timing of the County Pool's February and March 2005 interest apportionments. We anticipate posting the February and March 2005 interest apportionments to participants' cash accounts in the County general ledger by approximately April 19 and May 4, 2005 respectively.

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

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

- 1) **American International Group, Inc. was removed.**
- 2) **International Lease Finance Corporation was removed**

## **ECONOMIC OBSERVATIONS**

The post-meeting comments from the Federal Reserve Open Market Committee's (FOMC) last meeting on March 22, 2005 were far and away the most hawkish press statements in this nine-month old tightening cycle.

What changed in the March 22nd FOMC statement were two very important phrases. First, in past meetings, the FOMC told us unequivocally "inflation and longer-term inflation expectations remain well contained." Here, the FOMC made a significant change in their wording. "Though longer-term inflation expectations remain well contained, *pressures on inflation have picked up in recent months and pricing power is more evident.*" This change sparked a backup in rates across the curve as the market began pricing in more aggressive tightening by the FOMC. Second, the structure of the balance of risks statement was altered with the phrase, "*with appropriate monetary action.*" The street is dumbfounded to find any significant meaning to the new wording.

Outside of the FOMC, the economy shows every sign of slow and persistent growth. Manufacturing is expanding, although at a slower pace. Productivity is growing in line with historical averages. Employment numbers are consistent with moderate growth and consumer confidence levels have stabilized. All of which should allow the consumer to continue to spend, albeit at a more sustainable pace (EXHIBIT 1).

Of course the real question is, what does this mean for the future? The FOMC is watching if/when oil prices begin adding to inflation and if/when the cost of labor will begin to accelerate. Until one or both of these become "unbalanced" or some external geopolitical shock hits the system, the FOMC will attempt a gradual approach to interest rate neutrality. In light of this assessment, the Treasurer's department will continue to invest with the anticipation of further increases to short-term rates.

The FOMC increased interest rates 25 basis points at the March 22<sup>nd</sup> meeting. Both the Treasurer's Investment Committee and the financial markets were anticipating this outcome.

#### INTEREST RATE FORECAST

The Treasurer's Investment Committee is estimating an interest yield of 3.00 percent for the portfolio during fiscal year 2005-2006.

Please call with any questions.

# Personal Spending vs. Personal Income

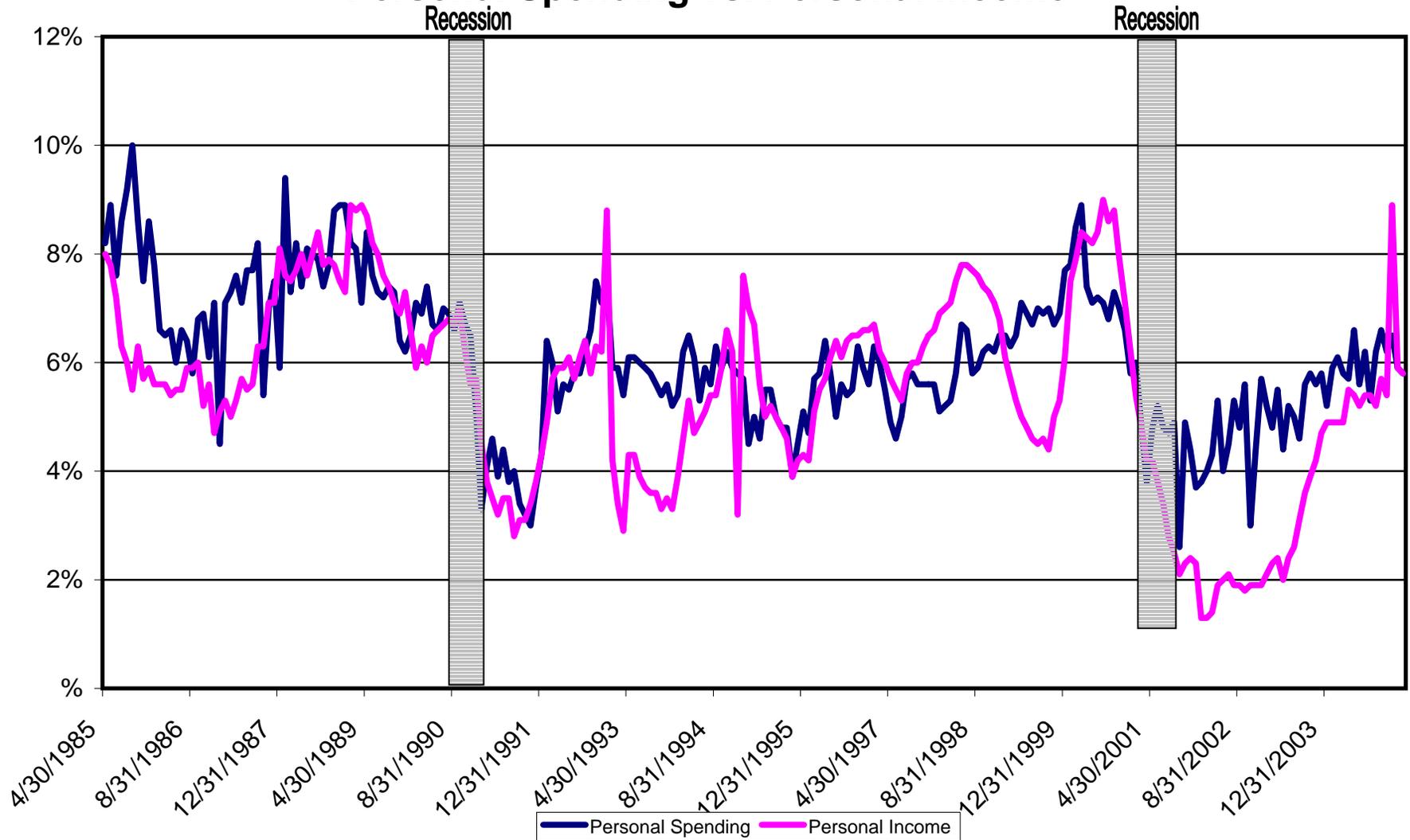


Exhibit: 1