



COUNTY OF ORANGE

OFFICE OF THE TREASURER-TAX COLLECTOR

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May 10, 2004

TO: Board of Supervisors
James D. Ruth, 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 April 30, 2004

Attached please find the Treasurer's Management Report for the County of Orange for the month ended April 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 April 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). 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 April 2004 interest apportionment. We anticipate posting the April interest apportionment to participants' cash accounts in the County general ledger by approximately May 17, 2004.

CREDIT WATCH NEGATIVE AND APPROVED ELIGIBILITY LIST

In the month of April, there were five changes to the Treasurer's approved eligibility list: **Bank of America, N.A.** was returned to the eligibility list; **Equitable Resources, Fleet Funding Corporation, Transamerica Asset Funding Corporation (TAFCO),** and **Triple-A One Funding Corporation** were removed from the eligibility list.

ORANGE COUNTY TREASURER'S CONFERENCE

The Sixth Annual Orange County Treasurer's Conference will be held May 19, 2004, in the Home Plate Club at Angel Stadium of Anaheim. Our conference theme is "Caught in a Pickle?" which will allow us to examine the bind in which local agencies and schools have been placed by the catastrophic mistakes of our state government leaders. Amy Falls, the New York based Chief Global Fixed Income Strategist and a Managing Director for Morgan Stanley, will be the keynote speaker. For more information, please refer to the brochure in the back, or visit our website at <http://www.oc.ca.gov/treas/PDF/OCTC-2004%20Brochure-Legal.pdf>.

ECONOMIC OBSERVATIONS

During April, the blowout economic releases from March amazed the financial markets. This outstanding data was seen as an affirmation of a "sooner rather than later" Federal Open Market Committee (FOMC) interest rate hike. As a result, fixed income markets rapidly pushed yields up 40 basis points. The equity markets, concerned that corporate profits would suffer from higher borrowing costs, reversed all 2004 increases.

Overwhelming economic strength is visible across most economic sectors, including:

- ❖ Housing - new home sales, existing home sales and housing starts had another spectacular record-breaking month.
- ❖ Employment – initial jobless claims have trended down steadily since April 2003 and reached a three-year low this month.
- ❖ Manufacturing – productivity has reached 20-year highs; factory orders reported its biggest increase since 2000; the National and Chicago purchasing managers' surveys are soaring; both the Philadelphia and the New York manufacturers' surveys are posting dramatic increases; and expanding industrial production signal manufacturing activity that is on fire.

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The statement after the FOMC's most recent meeting on May 4 left the timing of any interest rate change up to interpretation. As expected, the FOMC shifted its risk assessment to balanced on growth and inflation, and removed its willingness to "be patient in removing policy accommodation." FOMC officials further explained that returning interest rates to neutral would proceed "at a pace that is likely to be measured." However, the employment data for April that was released on May 7 more than confirmed tightening would be more sooner than later, with financial markets reacting dramatically. This data may signal an increase in interest rates as early as June.

Please call with any questions.