



COUNTY OF ORANGE

OFFICE OF THE TREASURER-TAX COLLECTOR

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June 8, 2001

TO: Board of Supervisors
Michael Schumacher, 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 May 31, 2001

Attached please find the Treasurer's Management Report for the County of Orange for the month ended May 31, 2001. 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 May 31, 2001. 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.

ECONOMIC OBSERVATIONS

The sharply slower U.S. growth that took hold last fall largely reflects the response by firms to an unexpected profit squeeze. This shortfall in earnings has resulted in cut backs to capital spending. In conjunction with the dramatic decline in manufacturing orders, factories have curtailed output and used existing inventories to fill any order backlogs.

The cost cutting efforts from corporate America have also included broad based worker layoffs. The impairment to personal income due to equity investment losses and higher energy prices is now threatened by potential job losses. Like a "domino effect," the shaken confidence felt by consumers may reinforce the downward momentum in economic activity.

The impact of the consumer on the nation's economic health is obviously a major concern to the FOMC. Hoping to jump-start a turnaround to this quagmire, the Federal Open Market Committee (FOMC) has eased interest rates at 50 basis point intervals five times since January. The most recent action was taken at the conclusion of their May 15 meeting.

With a total of 250 basis points in monetary easing and a tax cut on its way, the financial markets are looking for a rebound in economic activity during the second half of the year. Data permitting, the FOMC will probably slow its pace of interest rate easings in the near term. With that in mind, the financial markets and the majority of our Investment Management Committee look for a 25 basis point ease at the upcoming June 27 FOMC meeting.

INTEREST RATE FORECAST

As a result of the accurate predictions by the Investment Management Committee to the FOMC's aggressive interest rate easings, our forecast for fiscal year 2001/2002 remains at 3.75%.

EDISON INTERNATIONAL

Concerning our remaining \$20 million investment in Edison International, discussed in our April report, the following events have occurred since that time:

- May 18 Interest received on Medium Term Note (MTN) as scheduled
- May 31 No action to date by the Governor or State Legislature on proposed solutions

APPORTIONMENT OF COMMINGLED POOL INTEREST EARNINGS

We have prepared a forecast for the timing of the County Pool's March and April 2001 interest apportionments. We anticipate posting the March and April interest apportionments to participants' cash accounts in the County general ledger by approximately June 18 and July 14, respectively.

Please call if you have any questions.