



COUNTY OF ORANGE

OFFICE OF THE TREASURER-TAX COLLECTOR

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November 9, 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 October 31, 2001

Attached please find the Treasurer's Management Report for the County of Orange for the month ended October 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 October 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.

APPORTIONMENT OF COMMINGLED POOL INTEREST EARNINGS

We have prepared a forecast for the timing of the County Pool's August and September 2001 interest apportionments. We anticipate posting the August and September interest apportionments to participants' cash accounts in the County general ledger by approximately November 13 and December 12, respectively.

ECONOMIC OBSERVATION

An economist recently commented, "It'll get worse before it gets better. We have war, we have terrorist threats, we have rampant unemployment and we're in recession. It doesn't look good for spending or economic growth." In an atmosphere of exceptionally dismal economic data, it is no surprise that similar gloom and doom forecasts are being expressed more frequently.

The latest economic releases are uniformly awful. Durable goods orders dropped 8.5%. Capital goods orders plummeted 11.4%. Capital spending is expected to plunge 20% in the third quarter and will almost certainly implode in the fourth quarter. The collapse in tech spending, by far the worst ever, has the financial markets braced for a 30% cave-in.

The breadth of the current recession is the latest subject for economic debate. One side of the argument sees the economic and financial imbalances from the late 1990's being the root cause of this downturn. Firms over invested and households borrowed too heavily believing that share prices would rise forever. These excesses will take time to unwind.

On the other hand, the breathtaking scale of monetary and fiscal stimulus all but guarantees a powerful recovery by the middle of next year. The Federal Open Market Committee (FOMC) has aggressively eased interest rates 450 basis points so far this year, including 50 basis points on November 6. It is also estimated that increases in government spending could range from \$80 to \$100 billion, in addition to another \$100 billion in tax cuts. The huge economic impact from these incentives could eventually boost GDP by 4.5%.

The Treasurer's Investment Management Committee is following the latter way of thinking. We are hesitant to commit to the lower yields offered in longer maturities. Accordingly, our weighted average maturity (WAM) is decreasing in anticipation of the economy reviving by mid-2002.

Please call if you have any questions.