



OFFICE OF THE TREASURER-TAX COLLECTOR

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June 9, 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 May 31, 2005

Attached please find the Treasurer's Management Report for the County of Orange for the month ended May 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 May 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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APPORTIONMENT OF COMMINGLED POOL INTEREST EARNINGS

We have prepared a forecast for the timing of the County Pool's April and May 2005 interest apportionments. We anticipate posting the April and May 2005 interest apportionments to participants' cash accounts in the County general ledger by approximately June 13 and July 14, 2005 respectively.

CREDIT WATCH NEGATIVE AND APPROVED ELIGIBILITY LIST

In the month of May, there were two changes to the Treasurer's approved eligibility list. The following were added:

- 1) **Mont Blanc Capital Corporation**
- 2) **Wm. Wrigley Jr. Company**

ECONOMIC OBSERVATIONS

Last month it was a tale of two economies. Not much has changed in the ensuing month. Estimates of economic activity continued to be whipsawed by various indicators.

The Institute for Supply Management indicated its factory index fell to 53.3 from 55.2. A reading over 50.0 indicates growth and manufacturing has been expanding since June 2003. Most of the reduction has been attributed to the paring of inventories, which were allowed to build over the last few months. This includes GM and Ford who have announced they will cut production 9% and 2.3% respectfully.

Productivity growth was stronger than expected, coming in at 2.6%. However, this represents a continuation of a slowdown from 5.5% in 2003 and 4% in the first half of 2004. Notwithstanding the strong productivity number, unit labor costs increased. The cost to employ one unit of labor for one hour rose 4.8% on an annualized basis. This increase in compensation may be part of the answer in explaining the disconnect we noted last month between how consumers are continuing to spend versus their increasingly negative view of the economy. Adding to inflation concerns is the cost of crude oil, which continues to stay above \$50.00 a barrel.

We anticipate the following trend to continue: An economy growing at a sustainable, if unspectacular, rate and a Federal Open Market Committee (FOMC) determined to address the prospect of inflation in a "measured" fashion.

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.