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April 10, 2006

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, 2006

Attached please find the Treasurer's Management Report for the County of Orange for the month and quarter ended March 31, 2006. 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 www.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.

APPORTIONMENT OF COMMINGLED POOL INTEREST EARNINGS

We have prepared a forecast for the timing of the County Pool's February 2006 and March 2006 interest apportionments. We anticipate posting the February 2006 and March 2006 interest apportionments to participants' cash accounts in the County general ledger by approximately April 13, 2006 and April 28, 2006, respectively.

CREDIT WATCH NEGATIVE AND APPROVED ELIGIBILITY LIST

In the month of March, there was one change to the Treasurer's approved eligibility list:

The following was removed from the CP/ MTN Eligibility list:

- 1) **The E.W. Scripps Co.**

Please see the attached report detailing the reason the above action was taken by the Treasurer.

STAFFING UPDATE

Assistant Treasurer-Tax Collector Gary Cowan retired on March 16. Chriss Street is our new Assistant Treasurer-Tax Collector.

Our Deputy Treasurer-Tax Collector, Administration, Vickie Pazanti, who served as the department's human and administrative services manager, also retired on March 16. We were able to recruit Ms. Robin Russell for this position. Robin was a human resources consultant and author for RSM McGladrey Inc. and brings an excellent and varied private sector background to our department.

Ms. Judy Jacobson continues to be out on medical leave. Mr. Paul Cocking, our Assistant Investment Officer has been covering our trading desk, assisted by Mr. John Byerly.

The month of March saw more retirements in our department. The Orange County Employees Retirement System cost-of-living-adjustment (COLA) is effective in April, so March is a historically high month for retirements. But, with the enhanced retirement benefits we have seen more than our share of retirements. We anticipated this transition and have been judiciously working on filling the positions as quickly as is feasibly possible.

WEEKLY TREASURER'S INVESTMENT COMMITTEE (TIC) MEETING

Recently we have had representatives of one agency, the Children & Families Commission, attending our weekly Treasurer's Investment Committee meetings. We've also added a new intern, so things have been hopping.

To better explain what occurs at these meetings, I'm borrowing from a recent e-mail newsletter from the firm of Winthrop Taylor Financial, Inc. They described in layman terms what we cover in our time together. Although our focus is on the short end of the fixed income (bond) market, an overall review of the investment markets is an activity that we take very seriously.

Here are eight components of what a successful research methodology may look like.

First, analyze the economy. Knowing where we are at in the economic cycle may help you determine whether the wind is at your back or in your face. A few areas to analyze include: gross domestic product, retail sales, industrial production, job growth, and the Conference Board's leading economic indicators index.

Second, analyze corporate earnings. Knowing the general direction of corporate earnings (up or down) is important, but it is more important to know whether the *rate of change* is accelerating or decelerating.

Third, analyze inflation. A little inflation is okay but a lot of inflation can wreak tremendous havoc in the best-laid investment plans. Do you remember the late 1970s and the early 1980s when we had double-digit inflation rates? That was a poor time for the stock market. As inflation came down during the mid to late 1980s, the stock market rose significantly, so it makes sense to monitor this feisty friend or foe.

Fourth, analyze productivity. Healthy productivity growth is important because it leads to higher personal income, a higher standard of living, and it can help keep inflation under control.

Fifth, analyze interest rates. Reviewing the slope of the yield curve may provide insights into what investors expect for future economic growth. Right now, the yield curve is relatively flat, which may suggest investors anticipate low inflation and moderate economic growth.

Sixth, analyze the amount of cash available for investing. If there is a higher-than-normal amount of cash sitting on the sidelines that may provide extra fuel to propel the market higher.

Seventh, analyze investor psychology. There are numerous investor sentiment surveys available, and they help gauge whether investors are bullish or bearish. Ironically, investor sentiment surveys tend to be a contrary indicator, meaning when the surveys are bullish, that may be bad news for the future direction of the stock market and vice versa.

Eighth, analyze market action. Markets can gain momentum either to the upside or the downside. Frequently, this momentum may take individual securities to extreme levels of under or over valuation. Keeping this in mind may help you avoid buying a security too soon or selling it too late.

While no guarantee of success, following the process described above may help improve your odds of a successful investment outcome.

ECONOMIC OBSERVATIONS

On March 28th the Federal Reserve Open Market Committee (FOMC) increased the overnight rate 25 basis points for a 15th consecutive time to 4.75 percent. Last month, the two main market drivers were strong manufacturing and strong consumption, not much has changed.

The economies of China and the rest of Asia are increasing demand for the raw materials needed to supply American consumers with appliances, electronics and cars. This has created two vastly different manufacturing sectors. The one most consumers know is the sector that produces consumer durable goods such as televisions, furniture and appliances. This sector can be characterized by constant innovation which drives down prices. The second manufacturing sector produces the raw materials that the former uses to produce its products. Think of these materials as the building blocks for everything that can be purchased. These building blocks are experiencing a run up in price that hasn't been seen in more than twenty years. Copper, Zinc and Nickel are all at or near all-time highs and profits for the companies that produce them are as well.

As long as the most expensive part of the manufacturing process is labor, companies will continue to move manufacturing jobs to low cost labor markets. In turn, this allows consumers to purchase superior products at lower prices. This phenomenon has helped the FOMC keep inflation under control. This works as long as the price for labor drops faster than the price for the building blocks. Should the consumer begin to demand more than can be supplied, then prices from both manufacturing sectors will rise stoking inflation. Consequently, the market (as well as our office) remains uncertain of the outcome. But, it is pricing in the 16th consecutive tightening, which we believe will occur at the next FOMC meeting on May 10.

Please call with any questions.

**ORANGE COUNTY TREASURER-TAX COLLECTOR
EXECUTIVE SUMMARY
APRIL 1, 2005 - MARCH 31, 2006**

PERIOD ENDING - MONTH / YEAR	MONTH END MARKET VALUE	EARNINGS FOR MONTH	AVERAGE YIELD FOR MONTH	MONTH END WAM
<i>Current Month - March 2006</i>				
County Pool - Money Market Fund	\$ 1,953,949,036	\$ 7,465,041	4.60%	30
Educational Pool - Money Market Fund	\$ 1,975,163,364	\$ 8,072,937	4.60%	47
Extended Fund	\$ 1,691,008,075	\$ 5,134,439	3.82%	267
<i>February 2006</i>				
County Pool - Money Market Fund	\$ 1,928,205,781	\$ 6,203,227	4.48%	32
Educational Pool - Money Market Fund	\$ 2,156,578,419	\$ 7,413,028	4.47%	54
Extended Fund	\$ 1,542,707,130	\$ 4,883,504	3.97%	263
<i>January 2006</i>				
County Pool - Money Market Fund	\$ 1,730,807,314	\$ 7,288,808	4.33%	28
Educational Pool - Money Market Fund	\$ 2,229,871,926	\$ 7,906,726	4.30%	38
Extended Fund	\$ 1,667,664,958	\$ 5,031,447	3.52%	267
<i>December 2005</i>				
County Pool - Money Market Fund	\$ 2,273,556,493	\$ 8,272,353	4.20%	36
Educational Pool - Money Market Fund	\$ 2,251,869,796	\$ 7,013,914	4.17%	45
Extended Fund	\$ 1,666,951,795	\$ 4,806,291	3.44%	264
<i>November 2005</i>				
County Pool - Money Market Fund	\$ 1,764,219,017	\$ 5,431,434	3.96%	36
Educational Pool - Money Market Fund	\$ 1,795,317,372	\$ 5,763,233	3.97%	55
Extended Fund	\$ 1,616,280,601	\$ 4,734,849	3.46%	280
<i>October 2005</i>				
County Pool - Money Market Fund	\$ 1,587,619,387	\$ 4,691,500	3.77%	54
Educational Pool - Money Market Fund	\$ 1,834,752,304	\$ 6,158,578	3.79%	63
Extended Fund	\$ 1,658,630,151	\$ 4,722,715	3.32%	297
<i>September 2005</i>				
County Pool - Money Market Fund	\$ 1,511,927,846	\$ 4,679,952	3.63%	52
Educational Pool - Money Market Fund	\$ 1,967,481,625	\$ 5,920,243	3.61%	61
Extended Fund	\$ 1,585,513,188	\$ 3,944,771	3.11%	304
<i>August 2005</i>				
County Pool - Money Market Fund	\$ 1,578,219,688	\$ 4,715,019	3.50%	55
Educational Pool - Money Market Fund	\$ 2,070,796,012	\$ 5,904,293	3.46%	54
Extended Fund	\$ 1,520,846,244	\$ 3,938,232	3.05%	283
<i>July 2005</i>				
County Pool - Money Market Fund	\$ 1,704,788,689	\$ 5,134,069	3.30%	55
Educational Pool - Money Market Fund	\$ 2,097,386,634	\$ 5,856,164	3.28%	53
Extended Fund	\$ 1,508,289,288	\$ 3,904,570	3.03%	301
<i>June 2005</i>				
County Pool - Money Market Fund	\$ 1,965,578,445	\$ 4,990,924	3.14%	50
Educational Pool - Money Market Fund	\$ 2,023,992,462	\$ 5,583,846	3.12%	45
Extended Fund	\$ 1,511,124,166	\$ 3,878,491	3.19%	331
<i>May 2005</i>				
County Pool - Money Market Fund	\$ 2,037,630,751	\$ 5,810,214	3.03%	50
Educational Pool - Money Market Fund	\$ 2,265,226,445	\$ 5,796,023	3.02%	45
Extended Fund	\$ 1,461,308,895	\$ 3,678,833	2.93%	334
<i>April 2005</i>				
County Pool - Money Market Fund	\$ 2,525,745,315	\$ 6,147,555	2.75%	46
Educational Pool - Money Market Fund	\$ 2,257,464,691	\$ 4,846,316	2.86%	54
Extended Fund	\$ 1,473,151,187	\$ 3,347,206	2.88%	352
CUMULATIVE BALANCES - 12 MONTHS	AVERAGE BALANCES	TOTAL EARNINGS	AVERAGE YIELD	AVERAGE WAM
<i>April 1, 2005 - March 31, 2006</i>				
County Pool - Money Market Fund	\$ 1,880,187,313	\$ 70,830,097	3.35%	41
Educational Pool - Money Market Fund	\$ 2,077,158,421	\$ 76,235,300	3.35%	47
Extended Fund	\$ 1,575,289,640	\$ 52,005,347	2.98%	273