



COUNTY OF ORANGE

OFFICE OF THE TREASURER-TAX COLLECTOR

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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 September 30, 2001

Attached please find the Treasurer's Management Report for the County of Orange for the month and quarter ended September 30, 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 September 30, 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 9 and December 21, respectively.

SEPTEMBER 11

“September 11” will forever be etched on our minds as a day when the most dramatic acts of hate and carnage were perpetrated on America’s shores. As our office works with firms either located or headquartered in Manhattan, it was a solemn day for our staff.

Trading for the U.S. equity (stock) markets halted for the remainder of the week subsequent to the terrorist attacks on the World Trade Center, a historically unprecedented event. However, our investment pools were managed on a daily basis without interruption and our custodial services were provided without any disruption.

Our sympathies and prayers go out to all of the family members, friends and loved ones of those who lost their lives due to the tragic events of “September 11” in New York, Washington, D.C. and Pennsylvania.

FITCH – THE INTERNATIONAL RATING AGENCY

Fitch recently reaffirmed the “AAA/V-1+” ratings for our local government investment pools.

TREASURY WORKSTATION REQUEST FOR PROPOSAL (RFP)

Our office has decided to cancel the Treasury Workstation RFP. After the incredible amount of work directed to this project, we are very disappointed that a selection of an affordable and properly suited product was not acquired from a single vendor. However, the exercise was extremely valuable in what we have learned regarding the products currently available in a rapidly changing marketplace. Accordingly, we look forward to pursuing an integration of various solutions to make the treasury process more seamless in the near future.

CITY OF VILLA PARK

The list of outside participants continues to grow at a slow and steady pace. The staff of the Treasurer’s office is honored to have our first city participant and looks forward to working with Villa Park in their financial stewardship efforts.

INTEREST RATE FORECAST

As a result of the FOMC's continued aggressive interest rate stance subsequent to the September 11th attacks, our forecast for fiscal year 2001/2002 is being revised to 3%.

ECONOMIC OBSERVATIONS

The September 11 terrorist attacks dealt a shock to the U.S. economy just when it was showing tentative signs of rebounding from the slowest period of growth in a decade. That prospect is now shattered. A rather meaningless debate about whether the U.S. was already in recession has given way to an overall consensus that economic activity will decline outright into next year.

Many businesses suffered a sharp falloff in activity in the immediate aftermath of the terrorist attacks. The effect from the grounding of all air traffic, the closing of financial markets for several days, reduced shopper traffic, and lingering parts shortages was massive. But recent economic numbers indicate that business activity may be recovering somewhat with the help of lower prices and cheap financing.

Despite these incentives, the consumer is now facing amplified concerns over possible job layoffs and stock market losses. This uncertainty is resulting in a shift of disposable income, the usual source of consumer spending power, into household savings. It is widely believed that any new economic and fiscal stimulus is unlikely to provide much relief before the beginning of next year.

The Federal Open Market Committee (FOMC) cut interest rates by 50 basis points in an inter-meeting action on September 17 and another 50 basis points at its regular meeting, October 2. It is premature to gauge the immediate economic outlook due to the traumatic and unprecedented nature of recent events. It is clear that the FOMC will bend over backwards to try to ensure a quick recovery, as they follow the sage advice of yore, "In times of crisis, discount freely."

Please call if you have any questions.