COUNTY OF ORANGE



OFFICE OF THE TREASURER-TAX COLLECTOR

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July 10, 2001

The Honorable Cynthia P. Coad Chair, Board of Supervisors 10 Civic Center Plaza, Fifth Floor Santa Ana, CA 92701

Dear Supervisor Coad:

It is with great pleasure that I submit this annual report to you, to our participants, and the residents of the County of Orange for the fiscal year ended June 30, 2001.

These past twelve months have certainly been some of the more unique in the recent history of my department and in the county as a whole. I am very pleased with the results of the efforts achieved by my staff in both the Treasurer's and Tax Collector's offices. And this annual report provides a great venue to elucidate you on their accomplishments during this past fiscal year.

Investment Policy Statement – June 2 and December 19, 2000

June 2, 2000

With the assistance of the Treasurer's Advisory Committee, the Treasury Oversight Committee, and the Board of Supervisors we witnessed three reviews of our Investment Policy Statement that significantly impacted our performance for this past fiscal year. The final version is included with this report (see XII – Investment Policy Statement). Our annual modifications continue to build upon one of the most conservative investment policy statements in the state; one that has already been recognized by the Municipal Treasurers' Association of the U.S. and Canada with their Certificate of Excellence Award.

In last year's annual report I stated that our money market investment policy format allowed us to perform competitively in the fixed income environment due to a yield curve that has been relatively flat. "However, we have funds on deposit that have a longer time line and the yield curve should be steepening in the future, as this is its historically normal structure." Well, the yield curve steepened near the end of this fiscal year and we had nearly one-half billion invested with longer durations.

The approval of the Extended Fund, which became effective July 1, 2000, came along at the right time. The national monthly industry publication <u>Treasury and Risk Management</u>, in their May 2001 cover story, "Hard

Cash for Hard Times," by Richard Gamble, complimentarily mentioned the prescience of this strategic maneuver. This can be seen from the following excerpt:

" 'The first thing to do in a falling-rate environment is hone your cash forecast,' observes Lee Epstein, president and CEO of Money Market One, a San Francisco-based investment-management firm. 'You don't want to be investing overnight all of the time when the Fed is cutting rates.'

"As corporate finance pros well know, of course, there are two sides to the maturity game. When everyone expects rates to fall, issuers want to go short and investors want to go long.

"'Once everybody catches on, it's hard to beat the yield curve,' says Paul L. Soske, manager of treasury consulting at WISDOM Technologies in Pittsburgh. 'The greatest rewards go to those who move quickly, before the market can adjust to expectations.'

"Another way of putting it is that the greatest rewards go to those who appear to have acted prematurely. Take John Moorlach, for example.

"Perhaps the best-known municipal treasurer of the past decade, Moorlach played a central role in nursing Orange County, Calif., back to health following a \$1.6 billion derivatives investment loss that drove the county into bankruptcy and his predecessor, Robert Citron, out of office and into prison.

"Last summer, Moorlach moved \$500 million into a newly created long-term pool that permits maturities out to three years and has an average weighted portfolio maturity of 18 months. 'The yield curve was so inverted that it was hard to justify going long at that time, but now we have a lot of securities we bought when yields were 6.5%,' says Moorlach, who also is the county's tax collector. 'Our timing was good.'"

The Extended Fund was created as a result of more than five years of serious debate and contemplation by our Investment Management Committee, the Treasurer's Advisory Committee and the Treasury Oversight Committee. It is gratifying to see these efforts rewarded so quickly. And to have their expertise acknowledged by such a highly recognized publication is a "kudo" for everyone involved in the process to be very proud of.

A more significant method of demonstrating how propitious this policy change was is to describe it in monetary terms. By extending our maturities on a small portion of our portfolio, the County was able to earn an additional \$1.4 million over what would have been earned had we kept those funds in our Money Market Investment Pool during the fiscal year.

December 19, 2000

The Investment Policy Statement presented to the Board of Supervisors for their customary annual review in December of 2000 had one minor modification for a recently signed legislative change to the holding period for commercial paper.

Edison International

Two acquisitions of Edison International (EIX) were made in our Educational Investment Pool (the "school pool") during 2000 that carried into the year 2001. At the time they were purchased all three rating agencies gave them the highest ratings possible (A-1, P-1 and F-1). Although two of the agencies had Edison International, the parent company of the utility Southern California Edison (SCE), on "credit watch negative" at the time of our first acquisition, their position, and ours, was that Edison was enduring "political" turmoil due to partial deregulation which could be mitigated by allowing for the purchase of long-term contracts and the raising of rates.

The fundamentals of EIX's stock price, the electricity spot market prices and the utility indexes were satisfactory when the second acquisition was made on December 7. However, their stock price dropped to below \$19 in mid-December for the first time in more than four years, due in part to the quadrupling of spot market prices.

Fitch had issued a special report on the impact of rising power costs on California's investor-owned electricity distributors in September, but maintained their F-1 rating. However, not one member of my investment staff or myself recalls receiving a copy of this report. All the same, it did not state anything new.

On December 11 Fitch downgraded EIX to F-2. We then attempted to liquidate our two holdings, but they were too large to attract reasonable offers. As the second acquisition (Commercial Paper) would mature at the end of January we elected to hold it until maturity.

On January 4 Standard & Poor's downgraded EIX from A-1 to A-3. The next day Moody's made a similar downgrade, from P-1 to P-3. On January 10 we fully disclosed these activities in our December report's cover letter. Although there were other municipalities in the County with similar holdings, we maintained our "full disclosure" policy and stated: "Although liquidating at a large discount is an option, it is not warranted as we anticipate our principal will be paid in full at maturity."

On January 12 Fitch downgraded EIX from F-2 to C. On January 16 all three rating agencies made downgrades again. Standard & Poor's went to C, Moody's to NP (non-prime), and Fitch to D. This was done because SCE had suspended payments on its notes on that date. However, EIX, the parent, had not suspended its payments on its outstanding obligations. Notwithstanding, the rating agencies, after not reacting soon enough with downgrades, were now overreacting to compensate for ignoring their own special reports. Consequently, Fitch downgraded the school pool that same day from AAA/V-1+ to AA/V-1+, citing the EIX holdings to justify their aggressive move. We disclosed this within minutes to our participants. Unfortunately, Fitch's press release stated that the school pool had SCE holdings. This created a unique media reporting error that still continues to this day.

On January 18 we received our monthly interest payment on the medium-term note holding. All the same, I established an Ad Hoc Committee in the Matter of Edison International the following

day with the assistance of some of the most experienced professionals in the country, Chriss Street & Co. and the law firm of Greenberg Traurig. Within hours EIX issued a news release that it would honor its obligations. To date, that has occurred. Our commercial paper holding matured, as scheduled, on January 31 and the medium-term note's interest payments have been received in a timely manner each month and will mature next week on the 18th, as scheduled. Consequently, I expect an upgrade of the school pool's credit rating back to AAA/V-1+ that same day.

This has been a very unique event in the history of the state and the country. Unfortunately, the energy crisis will be with us for some time to come. But throughout this ordeal our office has provided full disclosure, leadership and full media access. And, as of this date, we have not realized losses from these holdings. That is, we have not lost one red cent with our EIX investments.

In October of 2000 Moody's released a report stating that from 1972 to 2000 the likelihood of a prime rated commercial paper holding defaulting within 180 days was 0.00 percent. Three months later, it happened. We have made minor adjustments to our already professional internal processes to decrease the possibility of such a rare occurrence from happening again. We have also established the position of Financial Analyst as an addition to our Investment Management team.

All in all, our pre-imposed safeguards worked. Our issuer diversity posture stood us well in that our holdings were a very small portion of our total portfolio. Even if we had lost our entire investment, it would only have reduced the school pool's net interest earnings and would not have invaded principal (that is why references to the bankruptcy were so naive). Near the end of January Moody's issued a "Special Comment," entitled "Orange County School Districts' Credit Quality Not Affected By County Pool's Investment In Edison Debt." It stated that "the amount invested in the IOU is small, and the effect of slow or no payment on the investments is likely to be offset by pool earnings and amortized over an extended period, minimizing any potential impact."

I believe our stature in the investment community served us well in our communications with EIX. And our solid relationship with the school districts assisted in addressing this concern with a unified posture.

Going through such a disturbing "politically" generated crisis has certainly exposed the "leadership quotient" of elected officials from Sacramento to the local level. Accordingly, I am very appreciative of the members of the Board of Supervisors that were supportive of our efforts during this period of time.

Investment Policy Statement – March 27, 2001

After the surprise rating downgrade of our school pool by Fitch on January 16, 2001, the Board of Supervisors made two unique requests: a review of our investment procedures by Internal Audit as to acquisition of the holdings that caused this downgrade and two presentations to the Board, including a special "Treasury Workshop," the first such request in the six years that I have held this position.

It is important to note that all audits performed on the Treasurer's office are included in our monthly reports. Audits involving the investment division are:

- A quarterly examination of our "Statement of Assets Held By the County Treasury," applying agreed-upon procedures, by Internal Audit.
- A quarterly review of our investment policy statement compliance by Fitch.
- An annual compliance audit by Internal Audit.

A statement from the most recent Internal Auditor's Report is quoted below:

"In our opinion, the Treasury management's assertions about compliance with the aforementioned investment compliance requirements for the year ended December 31, 1999, are fairly stated, in all material respects."

This fiscal year Internal Audit also completed a "Control Self Assessment" for my department and found that we fell in the top percentile for departments who have completed similar exercises. The findings included high morale among staff, effective communication, and a satisfactory implementation of internal controls.

Internal Audit found our EIX acquisitions, in their March 23, 2001 report, "to fully comply with the County's Investment Policy Statement." All this to say: we are a clean, transparent and professional operation.

All the same, for some unexplainable reason, the Internal Audit Department Director, along with the assistance of a wanting consultant, determined that he should also provide investment advice to the Treasurer in his report, thus exceeding his scope of responsibility. This resulted in some eleven recommendations, of which seven were summarily discarded by both the Treasurer's Advisory Committee and Treasury Oversight Committee. One may be included in our Investment Policy Statement submission for our annual review in December to document what we are already doing. I believe the initial four recommendations were not necessary, but reluctantly acquiesced due to the unique atmosphere that the Internal Auditor cultivated through an awkward "shuttle diplomacy" approach.

The first recommendation was to "prohibit buying any securities that is (sic.) on 'credit watch negative' by any of the credit rating agencies." Investment professionals are well aware that prime quality issuers, e.g. P-1, that are on "credit watch negative" may be downgraded one step to P-2, which is still a first-tier (or very high prime quality) issuer. As "credit watch negative" usually occurs when an issuer is involved in a proposed merger or acquisition, we normally review the credit rating reports, the underlying financial statements and its stock price volatility. Accordingly, a complete prohibition is an overreaction to what may be a solid and appropriate investment. For example, the only holdings in our pools on "credit watch — negative" at the time this investment policy change was implemented were issued by CIT Group. I elected to hold them to maturity and the "credit watch — negative" has since been dropped. Investing is an art and a

discipline. Relying solely on credit rating agency reports is not necessarily the best way to run an investment portfolio. This was even reiterated at the first Board of Supervisors meeting, yet this is the approach that was strongly recommended by Internal Audit.

Since the existing investment policy statement allowed for acquiring first-tier corporate investments with a split-rating, e.g. A-1, P-2, F-1, (still first tier) we recommended that Internal Audit provide a consistent overall recommendation. Accordingly, their second recommendation was to "prohibit the purchase of split rated (sic.) securities" (i.e., no credit rating agency may give a rating less than their highest rating). I believe that this was also an overreaction by Internal Audit and reflects a lack of professional expertise in the area of short-term fixed income investing. We held onto our split-rated holdings until maturity after the approval of the new investment policy statement with no issuer concerns.

The third recommendation was to "have the Treasurer, Assistant Treasurer, or Compliance Manager review all investment purchases daily." Based on our existing internal policies, this recommendation is redundant and is of minimal value to this department. All of our issuers are pre-approved by the Treasurer and Assistant Treasurer. Investment officers are empowered to acquire these issuers. Management reviews investment activity with the investment officers on a regular basis. Approving trades after they have been consummated does not reflect an investment acumen or a thorough understanding of our operations by Internal Audit.

The final recommendation was to "submit for review to the Board of Supervisors on an annual basis the qualifications of those to whom authority has been delegated to buy and sell securities." This also is an awkward investment policy statement inclusion as job descriptions and qualifications are a matter of public record. This recommendation goes on to require that "when changes are made to those who are authorized to make investments, the Board of Supervisors should be informed and should be provided with the qualifications of those individuals." We have always notified the Board of Supervisors of staff changes in our monthly reports when they occurred and again, in summary form, in this annual report. I am encouraged that the Board wishes to take a more proactive part in my Department, but am somewhat puzzled because the appearance is given that information provided in our reports is not being read.

This unique exercise proved that six years after our bankruptcy filing, it appears that the Board of Supervisors and the Internal Audit Department do not fully understand or appreciate the function and duties of the Treasurer's office. I do not believe that the Internal Auditor's attempt to solve an "only once in thirty years incident" with so many draconian and superfluous recommendations was beneficial. It did not put the Internal Audit Department in a good light and it made the Board of Supervisors look "out of touch" at best. This needs to be prevented in the future. My staff would love to provide a Treasury Workshop on an annual basis. I would also encourage the Board to read our monthly reports and, at the very least, visit this department. I believe you will see that this ship has been sailing a strong and steady course and there is no reason to panic when clouds appear on the horizon.

Treasury Oversight Committee

The Treasury Oversight Committee continues to meet on a quarterly basis to assist in the annual review of the investment policy statement and our compliance to it. The minutes of the Committee's meetings have been added as another disclosure in our monthly reports this year and past minutes are available on our web site (www.oc.ca.gov/treas/). The compliance audit performed by Internal Audit for the year ended December 31, 1999 was completed (see XIII – Annual Compliance Audit). The audit for the year ended December 31, 2000 is in process.

I wish to acknowledge my appreciation to Charles Schroeder, Committee Chairman, Robert Fauteux, Committee Vice Chairman, Michael Shumacher, County Executive Officer, David E. Sundstrom, Auditor-Controller, and Bill Habermehl, Interim Superintendent of the Orange County Department of Education for their assistance in this critical area of responsibility. A copy of their annual report to the Board of Supervisors is included in this report (see XIV—Treasury Oversight Committee).

Treasurer's Advisory Committee

The Treasurer's Advisory Committee continues to be a professional resource in critiquing and constructing the technical aspects of the investment policy statement. Their collective wisdom has been an invaluable asset to the County. I would like to extend my deep appreciation to: Jeffery M. Thomas, Chairman, Blake E. Christian, C.P.A., Vice Chairman, Bruce A. Hughes, Esq., C.P.A., Clyde E. Kendzierski, George Jeffries, and Wendy Margarita, Ed.D.

Investment Management Committee

Our investment management committee has completed another admirable year in its market research. Once again, the committee accurately predicted each regularly scheduled Federal Open Market Committee (FOMC) meeting decision on interest rates prior to the FOMC's meetings during this past fiscal year. This brings our record of precisely anticipating the FOMC's decisions to 47 out of 49 regularly scheduled meetings. This diligence to economic and market analysis has generated additional basis points in yield for our participants. This is especially true as it relates to our establishment of the Extended Fund.

The information provided in each of our monthly reports, including this one, has been informative and displayed a professional acumen concerning the direction of short-term interest rates. Accordingly, our investment performance was enhanced as we benefited from a longer weighted average maturity as a result of the research provided. It is a pleasure to state in our monthly reports that the charts, tables, graphs and numerical representations have been provided to our readers solely as a general overview of the economic and market conditions which the Treasurer utilizes in making investment decisions.

The investment staff, along with our volunteer student interns, continue to compile and update an impressive data base of issuers whose capital assets and credit ratings are thoroughly reviewed, researched

and approved as qualifying under our overly restrictive policies. Unfortunately, one historically stellar issuer, Edison International, became entangled in a unique political quagmire.

Legislative Pursuits

The 2000 Legislative Session in Sacramento found our second bill in two years being signed into law by Governor Davis. Senate Bill 1493 has incorporated into the code the permission to utilize the accrual method for distributing investment income. The accrual method is a generally accepted accounting principle (GAAP) and mandated by the Securities and Exchange Commission (SEC) for money market funds. We are glad that this obvious accounting procedure is now in the code to prevent any misunderstandings in this technical area. We are very appreciative of the work done on our behalf by former state Senator John Lewis and his staff.

For the 2001 Legislative Session our Department had eleven legislative submissions for the California Association of Treasurers and Tax Collectors (the "Association") to consider. Of the eleven, six were related to the treasury functions of my office. All but one of the eleven were approved by the Association's Legislative Committee.

1. Eliminate Government Code Section 27063.

This proposal was rejected by the Senior Consultant to the Senate Local Government Committee because we had a similar bill approved in the last two years.

Every month my office prepares a Statement of Cash Receipts and Disbursements for the Board of Supervisors and the Clerk of the Board. I do not believe it is very useful to its users. In the last Legislative Session we were able to add that the Auditor-Controller could also prepare this report. Unfortunately, subsequent to its passage our Auditor-Controller has not been able to provide a more useful report. Therefore, we mutually agreed to eliminate the requirement in total. We will attempt to submit this proposal again in the future.

2. Continue our efforts to avail ourselves of controlled disbursements.

This is included in the Local Government Omnibus Bill (SB 210).

3. Eliminate the duplications in Government Code Sections 53601 and 53635.

This proposal was also being pursued by the Treasurer of Palm Desert, so our efforts were merged into AB 609.

4. Add Funding Agreements as an eligible investment opportunity.

Due to a communication error by the lobbyist for the Association, this proposal was deferred for one year by the intended author.

5. Resubmission of a money market option.

Due to a communication error by the lobbyist for the Association, this proposal was also deferred for one year by the intended author.

6. Expand Treasury Oversight Committee eligibility for members' designees.

This proposal was dropped by the Association, after initially including it in their Local Government Omnibus bill, because Legislative Committee staff would only authorize a designee for the Auditor-Controller and it was deemed that existing provisions of State Code allow for certain members of the Treasury Oversight Committee to utilize designees.

7. Would exempt Counties from filing reports with State Treasurer as they are already subject to oversight provisions.

Due to a communication error by the lobbyist for the Association, this proposal was also deferred for one year by the intended author.

Compliance

Our ability to monitor the investment policy statement compliance has been documented in the regular internal noncompliance report summary, including our prompt rectification, provided in each monthly report. Our compliance is also documented in Fitch's quarterly reports, which are included in our monthly reports in a prompt manner (see XV – Fitch Compliance Audit Report for the Quarter Ended March 31, 2001).

Staffing Updates

We experienced staffing changes in key Treasurer and Tax Collector positions. In the Treasurer's Office we promoted our Assistant Cash Manager, Kim Hansen, to the position of Cash Manager. Kim is a long-time employee with the department and is a Certified Cash Manager. John Byerly, a former intern and Acting Assistant Cash Manager, was selected for the Assistant Cash Manager position.

In the Tax Collector's Office, Mahesh Patel, our Information Services Manager, resigned to accept a promotional opportunity in the Auditor-Controller's Office. We recently hired Elizabeth Edgington, a former Deloitte Consulting Manager, to fill this position.

There were no staffing changes involving those to whom authority has been delegated to buy and sell portfolio holdings. The qualifications of our existing staff are included with this report (see XVI – Investment Staff).

Annual Business Plan

We are using this annual report to provide a copy of our fifth annual Business Plan (see XVII—2001 Business Plan). Our annual Business Plan clearly delineates the tasks performed by this department and discusses our plans for the current calendar year. It also provides a detailed explanation of our performance measurements and our efforts to achieve them.

Treasurer's Conference

On February 1, 2001, our office hosted the third annual Orange County Treasurer's Conference. The conference, entitled "2001: A California Odyssey," was well attended and received positive feedback from the attendees. Our Host Committee performed in a superlative manner and is already in the progress of planning next year's event, scheduled for February 7, 2002.

GASB 31

Our conservative Money Market Investment Pools provide a safe, liquid, and competitive money market yield at a net asset value in the \$1 range. The investments are marked-to-market on a daily basis and comply with Governmental Accounting Standards Board (GASB) 31, which became effective on June 15, 1997. At June 30 our Extended Fund was also at a comfortable net asset value of \$1. Accordingly, those participants required to prepare their Comprehensive Annual Financial Reports, including the County, are not required to report a fair market adjustment for the fiscal year ended June 30, 2001.

Apportionment of Commingled Pool Interest Earnings

We have prepared a forecast for the timing of the County Pool's April and May 2001 interest apportionments. We anticipate posting the April and May interest apportionments to participants' cash accounts in the County general ledger by approximately July 23 and August 24, respectively. April, May, and June 2001 interest earnings and June administrative fees for all participants will be accrued in the County general ledger for the year ended June 30, 2001.

Outside Participants

During this fiscal year we were honored to add Mesa Consolidated Water District, headquartered in Costa Mesa, to our list of outside participants.

Treasury Workstation

We are nearing the completion of the evaluation of proposals submitted from vendors in response to our extensive Treasury Workstation Request for Proposal.

Banking Change

During this fiscal year we also reviewed our existing banking relationships in complete detail, including an analysis of competing pricing structures. As a result of these efforts, we awarded the banking relationship to Wells Fargo, effective July 1. We appreciate the cooperation shown by all of the County's departments and the Department of Education during this transition period.

As we enter an era of additional cost consciousness, we believe that the reduction in costs and the improvement in technology from this move will have a positive impact on the County as a whole.

Economic Observations for the Year

These past twelve months have seen a dramatic change in the yield curve, adding to the excitement of this very unique fiscal year. (Exhibit 1)

During 1995 to 2000, the rapid acceleration in the labor force and in industrial production (Exhibit 2) established a widespread expansion in capacity and played a significant part in the economic boom. Last fiscal year the FOMC cooled down the overheated economy by "slowly" raising interest rates. The FOMC was comfortable taking this unprecedented move because the economy was able to quickly grow without inflation pressures as a result of this expanded capacity.

Conversely, this higher growth potential has enabled the FOMC to swiftly take action in response to the rapid economic weakness that began to occur at the end of 2000. The FOMC has "vigorously" eased interest rates since January 2001 by 275 basis points without worrying that an over stimulated economy could lead to inflation. (Exhibit 3)

As the economy quickly turned from "hot" to "cold," the ensuing decline in profits lead to production cuts and inventory reductions. Above average labor costs, a result of the tight labor market, and sky-high energy costs compounded efforts to maintain earnings. Ultimately, the hope for a quick economic recovery faded resulting in broad-based job layoffs and major cuts in capital spending. This economic conundrum has confounded the financial markets for the last six months.

The following examples highlight the most severe economic changes:

- Unemployment initial jobless claims rose to recessionary levels. (Exhibit 4)
- Gross Domestic Product dropped from a growth level of 6.1% in June 2000 to an estimated 0.6% for June 2001. (Exhibit 5)
- National Association of Purchasing Manager's Index stayed below 50 most of the year signaling a contraction in manufacturing activity. (Exhibit 6)
- Consumer Confidence declined dramatically most of the year. (Exhibit 7)
- Capacity Utilization lowest level since 1983. (Exhibit 8)

There are, however, some rays of hope in this economy. The following indicators show that the consumer remains a driving force:

- Retail Sales still a positive number, but just barely. Consumers have been reluctant to change their lifestyles despite layoff threats and rising energy costs. (Exhibit 9)
- Construction Spending maintaining consistently high levels. (Exhibit 10)
- Housing Starts near record highs. (Exhibit 11)
- Existing Home Sales showing unparalleled resilience. (Exhibit 12)

The FOMC has certainly kept the management of a short-term portfolio stimulating. Recent economic releases, particularly the flattening in jobless claims and the progress in reducing manufacturing inventories, suggest that the light at the end of the tunnel might be visible. Nevertheless, the FOMC will error on the side of easing if indicators continue to show evidence of softness in the economy.

Tax Collection

We continue to provide one of the best collection operations in the state. Tax Collection percentages continue at record levels. We presently have collected \$2.7 million, which represents a 2.7 percent increase over the prior tax year. Our secured collection percentage rate ranking improved from 5th to 4th highest of the 58 California Counties and our collection rate remained at 98.6% for the 1999-2000 fiscal year.

Various technology enhancements to the Assessment Tax System were accomplished within budget. Major achievements include the implementation of an automated Mobile Home Collection System, an Unsecured Tax Collection System for Business Transfers and substantial modifications to the Unsecured Property Tax System to more efficiently apportion property tax fees collected. In addition, we have made significant progress towards developing Web-based access to property tax roll information. Systems staff have been trained in Web Development tools and we expect to release our initial Phase I Web Tax Roll Inquiry System in September 2001. Also, we recently conducted our first public tax sale auction via the Internet.

Effective communications and positive working relationships remain a flagship of the Tax Collection Department. Monthly Departmental Training sessions are held in order to cultivate employee knowledge and job satisfaction. We continue to take the lead when important tax events occur such as the recent Superior Court Judgment, which invalidated the City of Huntington Beach's Retirement Tax. This office was the lead County Agency in coordinating with the Auditor-Controller, Clerk of the Board, County Counsel and the City of Huntington Beach in developing an effective public information campaign to deal with the numerous constituent questions and requests for tax refunds related to this matter. In addition, we have been diligent in hosting quarterly interface meetings with the Auditor-Controller, Assessor, Clerk of the Board, and Clerk-Recorder to discuss assessment tax issues of mutual interest.

Our public service staff continues to do an excellent job in answering in excess of 161,000 phone calls annually. We have fine-tuned the County's existing Automated Call Distribution System by working with the CEO-IT Department. Our next step to improve public service will be the acquisition of more sophisticated call answering technology during the next fiscal year.

Property tax refunds processed by the Tax Collector's office are timelier due to the utilization of our recently acquired image technology. We have also been able to train additional staff in the processing of tax refunds via imaging, which has resulted in a more even distribution of work during peak processing times.

The 2000-01 fiscal year for the Tax Collector's office has been full of accomplishments and there is excitement in our office for the new challenges ahead.

Other County Involvements

I have the privilege of serving as a board member of the Orange County Employees Retirement System. This Board meets monthly, and I have been serving as Chairman of the Additional Retiree Benefit Account (ARBA) Ad Hoc Committee and the Audit Oversight Committee. I also serve as an ex-officio member of the County's Public Financing Advisory Committee, which meets biweekly, and as a member of the County's Audit Oversight Committee, which meets quarterly.

Other Involvements

During the prior two fiscal years a lengthy debate regarding the utilization of the National Tobacco Settlement ensued at the Board level. At first it was determined that all of the Board members wanted to allocate this new revenue stream to pay down our bankruptcy related debt. Various medical associations stepped in and advocated that they should receive these funds. A sixty/forty split was presented to the Board, but failed to pass. Subsequently, these medical associations qualified to have Measure H put on the November, 2000 ballot.

County Counsel immediately pursued two issues: stipulating that Measure H was unconstitutional and, therefore, that it be removed from the ballot. I did not believe that County Counsel would prevail on either front and proposed an alternate ballot measure, Measure G, that would propose a similar sixty/forty format once more. This would allow the voters to have a choice and participate in the decision. Unfortunately, it was difficult to mount a campaign on such short notice against a well-financed special interest. Measure H prevailed at the ballot box.

As someone who tried to prevent the significant losses that the County incurred due to my predecessor's investment strategy, I am also someone who is highly motivated to eradicate our bankruptcy debt as quickly as possible. Accordingly, I preferred to risk failure in pursuing a more equitable allocation of the Tobacco Settlement revenues than to not try at all. Let me express my gratitude to those Board members that voted to put Measure G on the ballot. I deeply appreciate your mutual concern for the long-term financial well being of the County.

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 year ending June 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 net 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.

Conclusion

I am thankful for the opportunity to serve our community in this capacity. It has been an honor to assist in the continuing process of renewing Orange County's financial standing in the municipal community. I am grateful to my staff for the extraordinary efforts they have provided in making this department such a professional one. Your encouragement and continued assistance have helped to make it so.

Very truly yours,

John M. W. Moorlach, C.P.A., CFP Orange County Treasurer-Tax Collector

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