



OFFICE OF THE TREASURER-TAX COLLECTOR

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January 10, 2006

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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 December 31, 2005

Attached please find the Treasurer's Management Report for the County of Orange for the month and quarter ended December 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 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 December 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 November and December 2005 interest apportionments. We anticipate posting the November and December 2005 interest apportionments to participants' cash accounts in the County general ledger by approximately January 20 and February 24, 2006 respectively.

CREDIT WATCH NEGATIVE AND APPROVED ELIGIBILITY LIST

In the month of December, there were six changes to the Treasurer's approved eligibility list:

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

- 1) **PepsiCo Inc.**
- 2) **Westpac Capital Corp.**
- 3) **Citigroup Inc.**
- 4) **Citigroup Global Markets**
- 5) **Walgreen Co.**

The following was added to the CP/MTN Eligibility list:

- 1) **Citigroup Funding Inc.**

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

ECONOMIC OBSERVATIONS

The Federal Open Market Committee (FOMC) raised interest rates for a thirteenth consecutive time December 13, bringing the overnight Fed Funds rate to 4.25%. The market is looking for an additional move January 31 to 4.5%. Then what?

Many money managers expect the FOMC to raise rates to at least 4.75%. However, the market consensus, as quantified by the yield curve, tells a different story (EXHIBIT 1). Should the FOMC raise overnight interest rates once more it will be within 5 basis points of the 30-year Treasury bond yield of 4.55%.

If the short-term rate were to rise above long-term rates the curve would be described as inverted. Five of the past six recessions have been preceded by inverted yield curves. Consequently, one can conclude that the market is not only expecting the Fed to discontinue raising rates, it may be anticipating the lowering of the short-term rates sometime in 2006.

How will the economy continue to grow in the future? Consumer spending drives two-thirds of GDP. If consumers find that they are unable to pull equity from their homes, which has been a major cash source for recent spending, then the business sector or the government will have to take up the slack. The government is hampered by its large deficit spending. But businesses have been reluctant to spend some of their near record cash balances (EXHIBIT 2), only increasing production for what they see as a temporary increase in demand.

The market may be at a turning point. Accordingly, we anticipate only one or two more interest rate increases by the FOMC.

Interest Rate Forecast

At this time, the Treasurer's Investment Committee is estimating an interest yield of 3.75 percent for the portfolio during fiscal year 2005-2006.

Please call with any questions.

Historical Yield Curve Treasury Securities

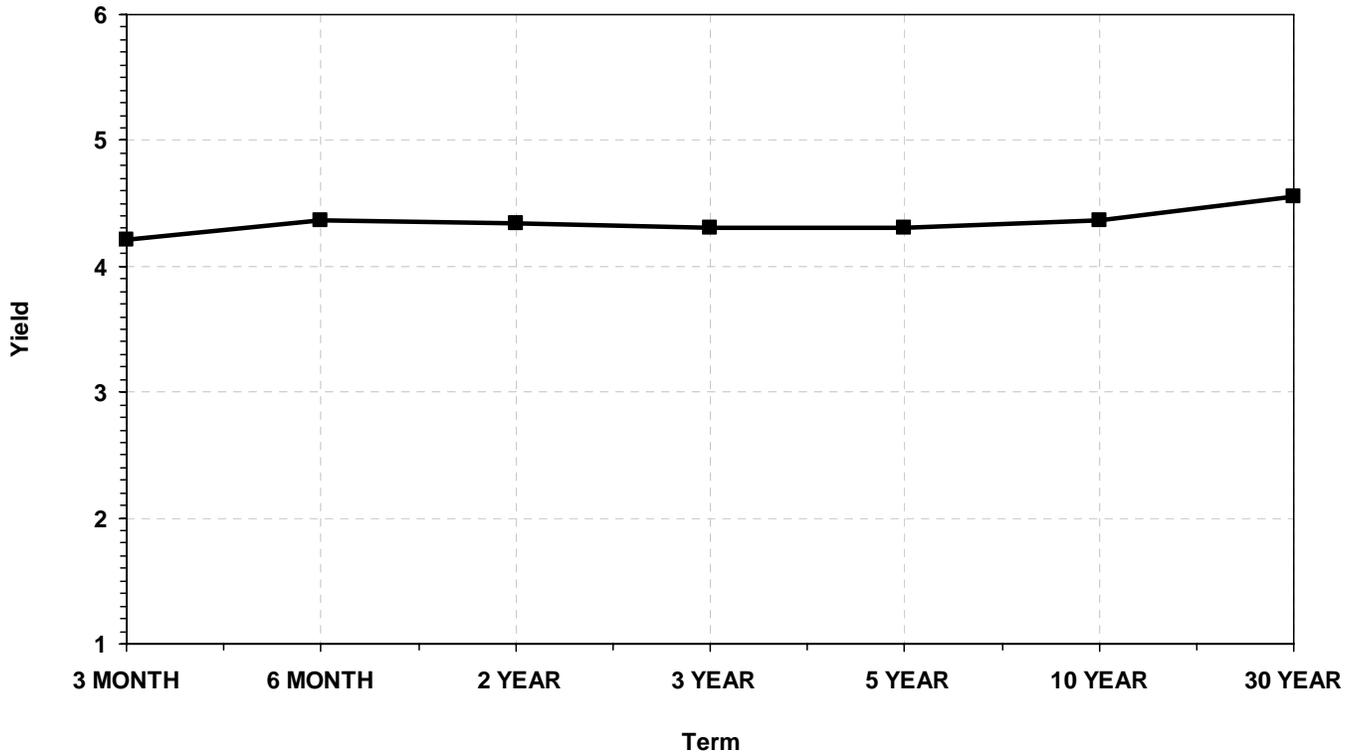
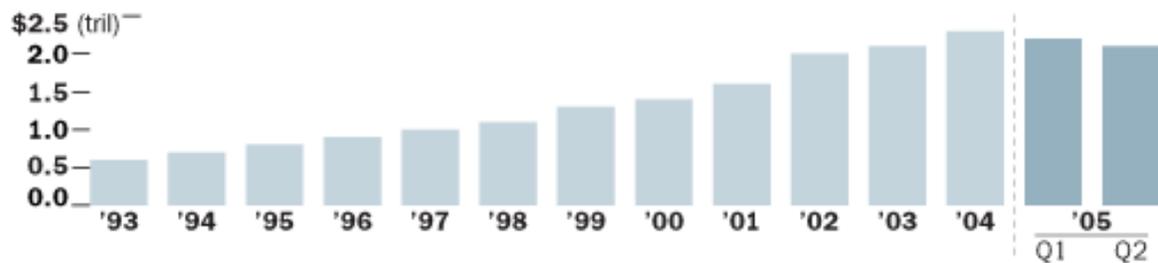


EXHIBIT 1

The Growing Stash

The cash holdings of companies in the S&P 500 index has topped \$2 trillion. As cash levels have moved up, the balance sheets of public companies generally are in great shape, boding well for stocks.

S&P 500 Cash Balances



Sources: Standard and Poor's; FactSet; Compustat; Goldman Sachs; Wells Capital Management

EXHIBIT 2

**ORANGE COUNTY TREASURER-TAX COLLECTOR
EXECUTIVE SUMMARY
JANUARY 1, 2005 - DECEMBER 31, 2005**

PERIOD ENDING - MONTH / YEAR	MONTH END MARKET VALUE	EARNINGS FOR MONTH	AVERAGE YIELD FOR MONTH	MONTH END WAM
<i>Current Month -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
<i>March 2005</i>				
County Pool - Money Market Fund	\$ 2,180,872,669	\$ 4,697,490	2.54%	44
Educational Pool - Money Market Fund	\$ 1,926,986,398	\$ 4,667,362	2.69%	58
Extended Fund	\$ 1,458,405,678	\$ 2,736,449	2.50%	361
<i>February 2005</i>				
County Pool - Money Market Fund	\$ 2,196,425,147	\$ 4,007,233	2.42%	51
Educational Pool - Money Market Fund	\$ 2,066,308,967	\$ 4,000,571	2.51%	49
Extended Fund	\$ 1,202,129,910	\$ 2,388,483	2.57%	327
<i>January 2005</i>				
County Pool - Money Market Fund	\$ 2,075,448,860	\$ 4,185,020	2.23%	40
Educational Pool - Money Market Fund	\$ 2,115,951,386	\$ 4,171,061	2.38%	47
Extended Fund	\$ 1,204,140,670	\$ 2,494,236	2.36%	346
CUMULATIVE BALANCES - 12 MONTHS	AVERAGE BALANCES	TOTAL EARNINGS	AVERAGE YIELD	AVERAGE WAM
<i>January 1, 2005 - December 31, 2005</i>				
County Pool - Money Market Fund	\$ 1,950,169,359	\$ 62,762,764	3.20%	47
Educational Pool - Money Market Fund	\$ 2,056,127,841	\$ 65,681,603	3.24%	52
Extended Fund	\$ 1,488,897,648	\$ 44,575,126	2.99%	315