

OFFICE OF THE TREASURER-TAX COLLECTOR



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March 9, 2007

TO: Board of Supervisors
Thomas G. Mauk, County Executive Officer
Treasury Oversight Committee
Treasurer's Advisory Committee
Participants

FROM: Chriss W. Street 
Treasurer-Tax Collector

SUBJECT: Treasurer's Management Report for February 28, 2007

Attached please find the Treasurer's Management Report for the County of Orange for the month ended February 2007. 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.ttc.ocgov.com.

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 February 28. 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 Investment Pool's January and February 2007 interest apportionments. We anticipate posting the January and February 2007 interest apportionments to participants' cash accounts in the County general ledger by approximately April 3 and April 18, 2007, respectively.

CHANGES IN ELIGIBLE CREDITS

In the month of February, there were five changes to the Treasurer's approved eligibility list.

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

- 1) **Merrill Lynch & Co.**
- 2) **Morgan Stanley**
- 3) **Beta Finance Inc.**
- 4) **Dorada Finance Inc.**
- 5) **Five Finance Inc.**

MARKET OBSERVATIONS

The shakeout in the markets for risky loans, such as sub prime mortgages, picked up steam this month as lender ResMae Mortgage Corp. added to the nearly twenty issuers whom have either filed for bankruptcy or sold at distressed prices. Brian Johnson, Senior Analyst for Lehman Brothers, speculated that General Motors will be forced to take a charge of almost \$1 billion to cover bad mortgage loans made by its former lending unit, Residential Capital LLC. The pain in the debt markets spread to equities as the stock prices of financial services providers were hammered!

February marked the return of volatility as the slowdown in the US economy triggered a sharp decline in emerging market equities that bled into all other major indices. The Dow Jones Industrials (EXHIBIT 1) gave up all its gains for the year and the two year Treasury yield moved down to 4.52% as investors rushed to place money in safe haven trades (EXHIBIT 2).

Last month many participants in the housing industry began voicing the opinion that the housing market was at a bottom and that it would begin to rebound. As mentioned in last month's Market Observations, the Treasurer's Office does not share this view. An additional aspect many are missing in the valuation of the housing stock is the ability of first time home buyers to purchase a house. Although interest rates have remained low the price level of housing has appreciated significantly over the last 10 years. Obviously, this has made the prospect of owning a house much more expensive. Now that credit lending standards are being tightened, these first time buyers will find it more difficult to enter the market. This leads to the observation, even with low lending rates; existing home owners are going to find it hard to find someone able to purchase their house so they can themselves move up.

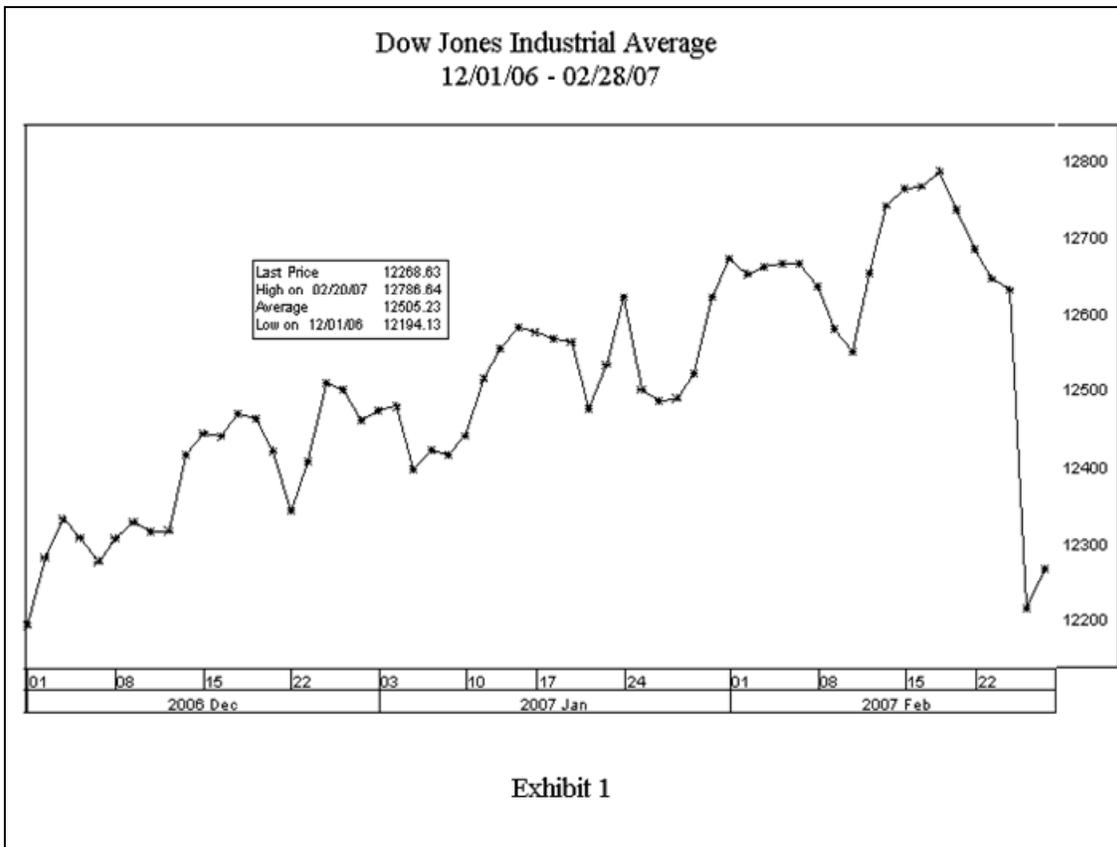
You will note a significantly higher average yield in February for the Extended Fund. The February annualized rate of return for the Extended Fund reflects the fact that most of the securities held in the portfolio yield on a 30 day basis. With only 28 days in February and 30 days of earnings, the resulting yield implies extraordinary performance. While our portfolio managers' do indeed earn impressive yields, the March yield will be a better reflection of the actual return for the portfolio. We welcome the additional volatility in the market and will continue to selectively extend duration as interest rates backup.

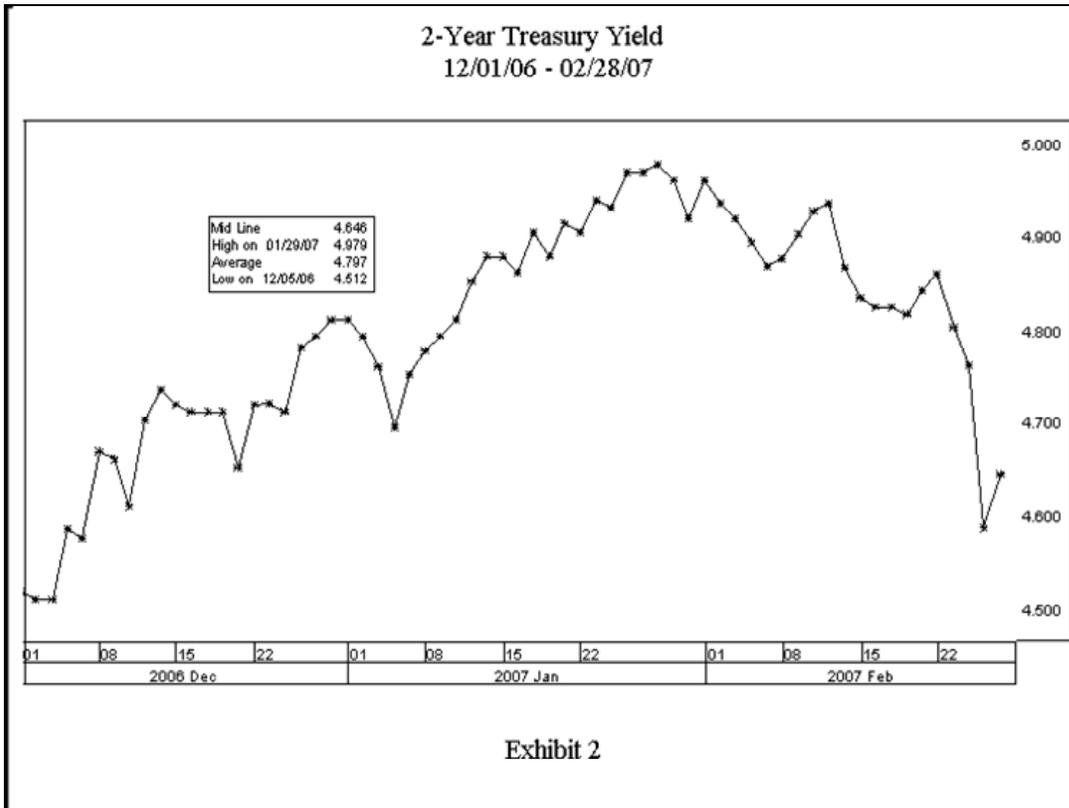
The Treasurer's Office appreciates your continued confidence and looks forward to providing you exemplary portfolio and cash management services in the future.

Interest Rate Forecast

At this time, the Treasurer's Investment committee is estimating an interest yield of 5.00 percent for the portfolio during fiscal year 2006-2007.

Please call with any questions.





**ORANGE COUNTY TREASURER-TAX COLLECTOR
EXECUTIVE SUMMARY
March 1, 2006 - February 28, 2007**

PERIOD ENDING - MONTH / YEAR	MONTH END MARKET VALUE	EARNINGS FOR MONTH	AVERAGE YIELD FOR MONTH	MONTH END WAM
<i>Current Month - February 2007</i>				
County Pool - Money Market Fund	\$ 1,707,506,698	\$ 6,691,832	5.40%	69
Educational Pool - Money Market Fund	\$ 2,273,724,523	\$ 8,707,709	5.35%	56
Extended Fund	\$ 2,278,912,413	\$ 9,587,935	5.43%	441
<i>January 2007</i>				
County Pool - Money Market Fund	\$ 1,702,220,169	\$ 9,037,751	5.38%	51
Educational Pool - Money Market Fund	\$ 2,171,852,117	\$ 9,951,822	5.31%	40
Extended Fund	\$ 2,250,742,762	\$ 9,239,897	4.92%	447
<i>December 2006</i>				
County Pool - Money Market Fund	\$ 2,459,854,086	\$ 11,628,814	5.38%	44
Educational Pool - Money Market Fund	\$ 2,364,291,301	\$ 9,283,335	5.37%	42
Extended Fund	\$ 1,997,281,928	\$ 8,257,453	4.92%	453
<i>November 2006</i>				
County Pool - Money Market Fund	\$ 1,834,087,894	\$ 7,897,248	5.39%	61
Educational Pool - Money Market Fund	\$ 1,913,967,546	\$ 8,281,668	5.36%	62
Extended Fund	\$ 1,971,569,719	\$ 8,216,199	4.99%	457
<i>October 2006</i>				
County Pool - Money Market Fund	\$ 1,792,188,272	\$ 7,569,048	5.39%	57
Educational Pool - Money Market Fund	\$ 1,923,791,277	\$ 9,185,841	5.35%	60
Extended Fund	\$ 1,944,745,354	\$ 7,841,267	4.80%	483
<i>September 2006</i>				
County Pool - Money Market Fund	\$ 1,615,083,076	\$ 7,236,374	5.41%	60
Educational Pool - Money Market Fund	\$ 1,948,311,050	\$ 8,808,477	5.40%	66
Extended Fund	\$ 1,903,965,350	\$ 7,429,388	4.78%	454
<i>August 2006</i>				
County Pool - Money Market Fund	\$ 1,614,920,265	\$ 6,811,792	5.40%	63
Educational Pool - Money Market Fund	\$ 2,035,802,849	\$ 9,180,864	5.38%	64
Extended Fund	\$ 1,895,848,400	\$ 7,712,637	4.60%	414
<i>July 2006</i>				
County Pool - Money Market Fund	\$ 1,584,726,279	\$ 7,778,613	5.29%	57
Educational Pool - Money Market Fund	\$ 2,135,846,766	\$ 8,849,641	5.24%	50
Extended Fund	\$ 1,777,440,895	\$ 6,516,407	4.45%	376
<i>June 2006</i>				
County Pool - Money Market Fund	\$ 1,802,431,285	\$ 7,644,477	5.18%	55
Educational Pool - Money Market Fund	\$ 1,877,538,725	\$ 8,917,379	5.09%	50
Extended Fund	\$ 1,695,053,655	\$ 6,274,458	4.48%	335
<i>May 2006</i>				
County Pool - Money Market Fund	\$ 1,818,302,640	\$ 8,544,307	4.98%	29
Educational Pool - Money Market Fund	\$ 2,235,054,471	\$ 9,348,439	4.93%	39
Extended Fund	\$ 1,713,197,862	\$ 6,308,786	4.27%	317
<i>April 2006</i>				
County Pool - Money Market Fund	\$ 2,369,981,051	\$ 9,761,165	4.80%	25
Educational Pool - Money Market Fund	\$ 2,240,609,358	\$ 8,117,151	4.81%	40
Extended Fund	\$ 1,702,966,857	\$ 5,973,981	4.13%	287
<i>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
CUMULATIVE BALANCES - 12 MONTHS	AVERAGE BALANCES	TOTAL EARNINGS	AVERAGE YIELD	AVERAGE WAM
<i>March 1, 2006 - February 28, 2007</i>				
County Pool - Money Market Fund	\$ 1,854,604,229	\$ 98,066,462	5.22%	50
Educational Pool - Money Market Fund	\$ 2,091,329,446	\$ 106,705,263	5.18%	51
Extended Fund	\$ 1,901,894,439	\$ 88,492,846	4.63%	394