ROBERT L. "BOB" CITRON
COUNTY TREASURER—TAX COLLECTOR

ADMINISTRATION
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COUNTY OF ORANGE

OFFICE OF THE TREASURER–TAX COLLECTOR

August 28, 1991

Board of Supervisors
10 Civic Center Plaza
Santa Ana, CA 92701

SUBJECT: Annual 1990-91 Financial Statement

The Orange County Treasury manages money for 185 different and separate governmental agencies. Seventeen percent of the total monies that we manage is controlled directly by the Board of Supervisors (County General Fund, Environmental Management Agency and the John Wayne Airport, etc.). The remaining monies that we manage is for governmental agencies that are not under the control of the Board of Supervisors. Of the remaining agencies, 35 are invested in our Local Agency Investment Pool. These are agencies that have their own treasurers and are not required by law to invest with the County Treasurer. Four of the agencies are situated in other counties. Therefore, this financial report is intended for all governmental agencies for which the County Treasury manages their funds.

HIGHLIGHTS OF THE FINANCIAL STATEMENT: The County Treasury has had an unusually profitable year compared to what other money managers have earned in these economically recessionary times. We earned an average yield of 8.856%. The State of California Treasury, with an average monthly balance of $20.8 Billion, had an average yield of 8.02%. This is a spread difference of .836%. In the month of June 1991 (end of fiscal year), the Orange County Treasury earned 8.20% and the State Treasury earned 7.17%, a spread of 1.03%. (See attached graph.) The average monthly balance of the Orange County Treasury for fiscal 1990-91 was $2.918 Billion, an increase of $95 Million over the average of the previous fiscal year. The Treasury had monthly balances for five of the 12 months of over $3 Billion ($3.293 Billion in April). The total interest earnings in investments received was an <u>all time high</u> of $245,512,000. This was a 7.36% increase over the $228,679,000 in 1990-91. The total interest earnings are prorated amongst our various governmental clients based upon the average daily balances that they have on deposit in the Treasury. The actual net amounts of receipts that we received was $5,401,033,000. This is accounted for as follows:

	AMOUNT	% OF TOTAL
TAX COLLECTIONS	$1,862,781,000	34.49%
SHORT TERM LOANS	145,242,000	2.69%
BONDS (NOTES)	73,535,000	1.36%
STATE SUBVENTIONS	1,766,161,000	32.70%
INTEREST RECEIVED	243,212,000	4.50%
OTHER (Court Fines/Fees, Recorder Fees, Licenses & Permits, etc.)	1,310,102,000	24.26%
TOTAL	$5,401,033,000	100.00%

The total receipts (cash flow) from all sources including the rollover or reinvestment of investments was $134.648 Billion, an increase of $27.314 Billion over the previous fiscal year.

INVESTMENT POLICY: We have been asked many times why we consistently earn higher interest yields over the majority of other public and private treasuries; and not only in California but in the United States, particularly for the size of the portfolio we manage. We are not the A typical money managers who buy, sell, trade government securities. We do not trade securities and take a loss on the security sold and make up the loss and a future profit on the security bought. In fact, we rarely will sell a security where we are going to take a loss. What our main investment strategy is, is the Reverse Repurchase Agreement market. (Reverse Repos) A Reverse Repo is where we take government securities that we own, "lend them" to a securities dealer and receive back a sum of money in which we pay the dealer an interest rate cost. We then take that sum of money and reinvest it in another security which pays a higher interest rate than what we are paying the securities dealer. This is also the "spread" between the two different interest rates and is called "arbitrage"*. We have perfected the Reverse Repo procedure to a new level. As an example, we recently took $90 Million of three different issues or coupons of Federal National Mortgage Association (FNMA) debentures we owned and reversed them for 90 days maturity. The interest rate we paid the dealer was 5.75%. We took the $90 Million received back and reinvested in securities of the Student Loan Marketing Association (SLMA - a U. S. Government sponsored agency). This debenture has a floating rate interest rate that pays interest every 90 days. The first interest coupon was 6.89%. The "Spread" was 1.14%. The additional dollars gained on the transaction was $242,210. We then reversed the SLMA's to the identical 90 day maturity as the FNMA Reverse at an interest cost of 5.60%. We took the $90 Million received back and reinvested into a Deutch Bank Certificate of Deposit (CD). Deutch Bank is rated AAA by the credit rating agencies. This CD is a floating rate quarterly interest pay instrument, which has the same quarterly coupon payment dates as the SLMA's. The first coupon interest rate was 7.04%, giving us a spread of 1.44%, or a net profit of $341,406 on this transaction. A couple of days after doing this Reverse Repo, we reversed the Deutch Bank CD's for 90 days maturity at an interest cost of $5.85%. We took the $90 Million received and reinvested it into a Repurchase Agreement with a dealer, where the dealer placed as security for our "investment" mortgaged-backed securities. The interest rate paid for this final 90 day maturity Repo was 6.10%, or a spread of .25%. The dollar gain was $56,250. The total additional dollar gain or net profit on these three Reverse transactions was $639,866. This represents an annualized interest yield gain of 2.69%. To obtain this additional yield gain, we only had actually invested $90 Million of the 360 Million totally invested. The reversing of the FNMA's provided the funds to purchase the SLMA's. The reversing of the SLMA's purchased the CD's. The reversing of CD's purchased the Repurchase Agreement. The downside risk is very minimal since we are dealing with government securities, AAA CD's and securitized investment Repurchase Agreements. The Repurchase and Reverse Repurchase Agreement markets are a 500 billion dollar market in the United States.

*ARBITRAGE: The simultaneous buying and selling of the same thing, in different markets, in order to profit by the difference between the prices ruling in such markets.

Robert L. "Bob" Citron
Orange County Treasurer-Tax Collector
Santa Ana, California

The Orange County Treasury has kept $1.9 Billion of its portfolio (65%) out on Reverse Repos at all times. This has allowed us to earn in the fiscal year just ended **$16,550,870** additional earnings by using the Reverse Repurchase Agreement procedure.

THE FUTURE: In June of 1990 we predicted for budgetary purposes that we would earn for the County General Fund a rate of 8.80% for the fiscal year 1990-91. We actually earned 8.856%. For the 1991-92 fiscal year we have predicted an average earning rate of 7.50%. This may be more difficult to achieve than what we accomplished in the last fiscal year. There is conjectures as to how fast our economy is coming out of the recession. In December of 1990 I predicted that the bottom of the recession would be in June of 1991. That by December of 1991 economist and investors would look back and say that the recession was over in the previous June and now we have relatively pulled out of the recession. Before and since June, the economic numbers coming out of the United States Commerce Department have been mixed. Unemployment which appeared to be improving before June grew in August. The value of the dollar compared to other currency was weakening but is now strengthening again. This affects our balance of trade deficits, which has been steadily coming down over the last year, which is a plus for our economy. The National Deficit, which grew over a trillion and a half dollars in the Reagan Administration, is still growing. Today, it is over three trillion dollars. The expected deficit, by the end of the Federal fiscal year on September 30, 1991, is expected to be $272 Billion. The interest cost on this debt represents 19% of the Federal budget. The Federal budget makers in attempting to cut the budget cannot do anything about cutting this interest rate cost which represents almost 20% of the Federal Budget. This horrendous National Debt affects interest rates.

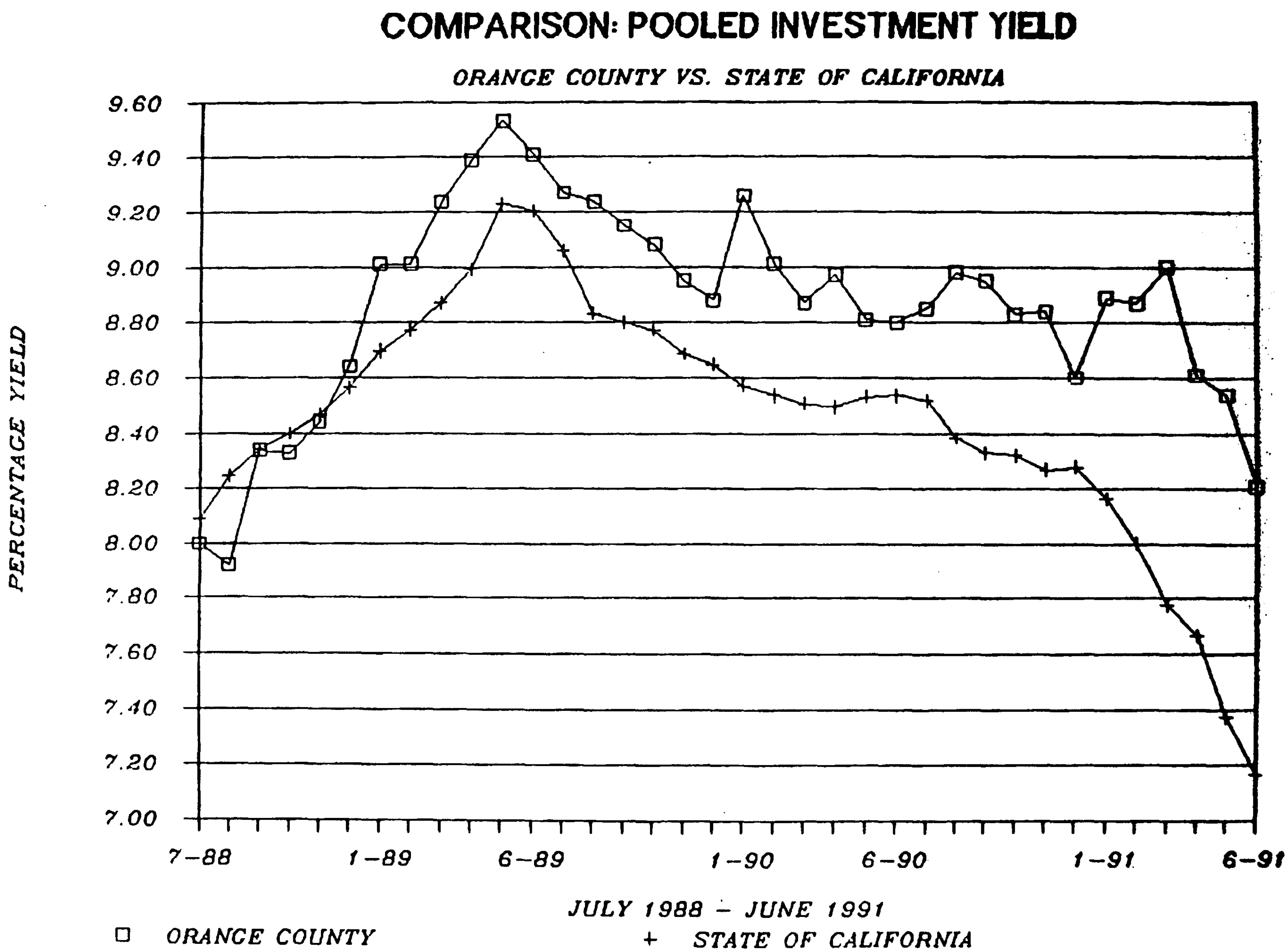
The July Durable Goods Orders indices announced in late August was up over 10% over the June number when only a 1% increase was predicted. This one bearish economic number caused interest yields on government securities to go up an average of .23%. Prior to this economic number being announced, the psychology on the Street was that the Federal Reserve was going to loosen interest rates once again. Many on the Street are now saying based on the Durable Goods numbers, that the Federal Reserve would not loosen interest rates again. Unfortunately, you cannot always trust these numbers, especially one month's number out of many. I think there is a 50-50 chance that they will loosen again. I believe interest rates will be relatively stable this 1991-92 fiscal year, and by the end of this year the Treasury 30-year bellwether bond that is now trading in the 8% to 8.20% range could be at 8.50%. This is where it was before the last interest rate loosening by the Federal Reserve. Nineteen-ninety-two is a presidential election year, all previous administrations have done whatever they could to hold down interest rates. Nineteen-ninety-two will be no different.

It will be 1993, in my opinion, before interest rate rise significantly compared to where they are now. Interest rates are cyclical; they go up for two or three years, they then come done for two or three years. World conditions or events such as the recent Gulf War can affect interest rates one way or another. There are large inflationary economic conditions in Europe; particularly in Germany. There is an interest rate indices called

Libor. Currently the 90 day maturity American Libor rate is 5.75%. The 90 day maturity Deutchmark is 9.19%. The 90 day maturity Swiss Libor rate which is an amalgamation of all European rates is 8.60% Because investors can earn more interest yields in Europe than in the United States, we could see more and more money leaving not only the United States, but Japan, and going to Europe, including those European investors who are or were investing in treasury securities in the United States. These factors could force American interest rates upward eventually. The current Russian unsettledness could exaggerate the situation further, assuming that a full fledged Civil war does not break out in Russian within the next 12 months. All these factors including the unsteadiness of American financial institutions make predicting interest rates very far from an exact science. Many years of experience of watching others attempt to predict the ups and downs of interest rates has taught me to know what fallacies there are in trying to predict them long term. There is an old colloquialism where you forget your telephone number and ask an economist to remember it for you. The economist's answer is to "estimate" what your number was. No matter what interest rates will do in the future, we believe we have proven that we can continually earn a yield in a large excess of those projected interest rates by safely leveraging our portfolio in the Reverse Repurchase Agreement markets.

Robert L. Citron
Treasurer-Tax Collector

RLC:jg



COMPARISON: POOLED INVESTMENT YIELD
ORANGE COUNTY VS. STATE OF CALIFORNIA
PERCENTAGE YIELD
9.60
9.40
9.20
9.00
8.80
8.60
8.40
8.20
8.00
7.80
7.60
7.40
7.20
7.00
7-88
1-89
6-89
1-90
6-90
1-91
6-91
JULY 1988 - JUNE 1991
ORANGE COUNTY
STATE OF CALIFORNIA

ORANGE COUNTY TREASURER-TAX COLLECTOR

EXHIBIT A

ACCOUNTABILITY
INDICATED DATES
(000 Omitted)

	Fiscal Years Ended		
	June 30, 1991	June 30, 1990	June 30, 1989
CASH AND BANK ACCOUNTS (COMMINGLED)			
Checking Accounts and Cash (Exhibit B)	$ 39,933	$ 53,545	$ 24,763
Time Deposits	64,000	114,017	158,650
Total Cash, Checking Accounts and Time Deposits	103,933	167,562	183,413
COMMINGLED FUNDS INVESTED (EXHIBIT C) Negotiable Securities (Cost)	$2,694,000	$2,400,859	$2,051,254
SPECIFIC FUNDS INVESTED (EXHIBIT D) Negotiable Securities and Time Deposits:			
Deferred Compensation	$ 52,795	$ 47,269	$ 39,796
Foothill Circulation Phasing Plan	0	16,451	0
John Wayne Airport	0	0	1,770
Miscellaneous Districts & Funds	100	3,685	7,529
Sanitation Districts	0	0	35,000
Special District Bond Funds	136,457	177,317	320,854
Total Specific Funds Invested	$ 189,352	$ 244,722	$ 404,949
RETIREMENT SYSTEM INVESTMENTS (A)			
Long Term	$1,371,199	$1,227,309	$1,136,649
Short Term	137,875	87,479	1,371
Total Retirement System Investments (Excludes Commingled Funds)	$1,509,074	$1,314,788	$1,138,020
TREASURER'S TOTAL ACCOUNTABILITY	$4,496,359	$4,127,931	$3,777,636
OUTSTANDING CHECKS - ESTIMATED (B)	$ 150,000	---	---
OUTSTANDING CHECKS - ACTUAL (B)	$ ---	$ 158,612	$ 136,185

(A) - Details of financial activities of Orange County Employees Retirement System are shown in separate reports issued on a calendar year basis.

(B) - County and Special District Checks	$ 41,200	$ 44,343	$ 42,999
School Payroll Checks (Issued 6/30)	94,100	91,543	79,131
Other School District Checks	12,300	18,442	10,579
Trust Fund Checks	2,400	4,284	3,476
	$ 150,000	$ 158,612	$ 136,185

EXHIBIT

ORANGE COUNTY TREASURER-TAX COLLECTOR

CASH ACTIVITY
INDICATED YEARS
(000 Omitted)

	Fiscal Years Ended		
	June 30, 1991	June 30, 1990	June 30, 1989
CHECKING ACCOUNTS AND CASH BEGINNING OF YEARS (EXHIBIT A)	$ 53,545	$ 24,763	$ 28,43
RECEIPTS			
Investment Proceeds (Commingled)	$128,506,948	$101,650,229	$165,078,93
Investment Proceeds (Specific)	740,118	659,597	175,10
Taxes (Deposited by Tax Collector)	1,862,781	1,704,346	1,489,74
Short Term Loans (Fifteen Months or less)	145,242	121,270	97,05
Bond (Note) Sales	73,535	29,597	344,81
State of California	1,766,161	1,706,666	1,470,56
Interest Received from Investments	243,212	228,679	207,19
Other Sources	1,310,102	1,233,519	1,284,42
Total Receipts-Fiscal Year	$134,648,099	$107,333,903	$170,147,81
Sub-Totals	$134,701,644	$107,358,666	$170,176,25
DISBURSEMENTS			
Investments Placed (Commingled)	$128,750,072	$101,955,201	$165,172,83
Investments Placed (Specific)	795,488	819,824	411,78
Regular Disbursements	5,116,151	4,530,096	4,566,87
Total Disbursements-Fiscal Years	$134,661,711	$107,305,121	$170,151,49
CHECKING ACCOUNTS AND CASH ENDS OF YEARS (EXHIBIT A)	$ 39,933	$ 53,545	$ 24,76

ORANGE COUNTY TREASURER-TAX COLLECTOR

EXHIBIT C

COMMINGLED FUNDS INVESTED
INDICATED YEARS
(000 Omitted)

	Fiscal Years Ended June 30, 1991	June 30, 1990	June 30, 1989
INVESTMENT ACTIVITY BEGINNING OF YEARS			
Time Deposits	$ 114,017	$ 158,650	$ 311,150
Negotiable Securities	2,400,859	2,051,254	1,804,858
Totals	$ 2,514,876	$ 2,209,904	$ 2,116,008
INVESTMENTS PLACED DURING YEARS	128,750,072	101,955,201	165,172,832
Sub-Totals	131,264,948	104,165,105	167,288,840
INVESTMENTS MATURED & SOLD DURING YEARS	128,506,948	101,650,229	165,078,936
END OF YEARS			
Time Deposits	$ 64,000	$ 114,017	$ 158,650
Negotiable Securities	2,694,000	2,400,859	2,051,254
Totals	2,758,000	$ 2,514,876	$ 2,209,904
INTEREST DISTRIBUTIONS			
County General Fund	$ 14,620	$ 14,832	$ 12,666
Deferred Compensation Fund	86	218	786
Employees Retirement System	4,067	2,908	7,281
Escrow Accounts	851	320	103
Federal Revenue Sharing	13	77	204
Fire Protection	1,483	1,512	1,031
Flood Control	13,029	12,539	9,448
Foothill Circulation Phasing Plan	5,540	510	297
Harbor Beaches & Parks	4,191	3,452	3,040
Impounded Taxes Trust	1,544	1,305	979
John Wayne Airport	3,116	10,969	10,396
Local Transportation Fund	968	679	1,203
Outside Agencies	10,715	8,491	4,125
Road Fund	5,445	5,662	4,406
Sanitation Districts	15,606	18,075	18,975
School Districts	56,106	54,012	42,749
Special District Bond Funds	9,991	1,407	97
Taxes Collected - Awaiting Distribution*			
Secured	6,794	7,598	6,11[illegible]
Unsecured	1,781	1,542	93[illegible]
State Redemption	1,585	1,587	1,57[illegible]
Supplemental	1,402	1,191	919
Other	471	509	479
Thoroughfare & Bridge Program	2,416	1,733	1,009
Transit District	10,734	11,136	9,605
Transportation Commission	15,692	15,638	12,719
Waste Management Enterprise Fund	1,613	1,602	1,64[illegible]
Water District	5,542	5,430	4,91[illegible]
Miscellaneous Districts & Funds	30,940	27,361	10,55[illegible]
Totals	$ 226,341	$ 212,295	$ 176,36[illegible]

*Includes interest distributed to the County General Fund in amounts of $2,229,000, $1,653,000 and $1,799,000, during the fiscal years ending June 30 1991, June 30, 1990 and June 30, 1989 respectively for Taxes Collected - Awaiting Distribution.

ORANGE COUNTY TREASURER-TAX COLLECTOR

EXHIBIT

SPECIFIC FUNDS INVESTED
INDICATED YEARS
(000 Omitted)

	Fiscal Years Ended June 30, 1991	June 30, 1990	June 30 1989
INVESTMENT ACTIVITY			
BEGINNING OF YEARS			
Time Deposits	$ 0	$ 10,287	$ 0
Negotiable Securities	244,722	394,662	168,275
Totals	$ 244,722	$ 404,949	$ 168,275
INVESTMENTS PLACED DURING YEARS	740,118	659,597	411,780
Sub-Totals	$ 984,840	$ 1,064,546	$ 580,055
INVESTMENTS MATURED AND SOLD DURING YEARS	795,488	819,824	175,106
END OF YEARS			
Time Deposits	$ 2,900	$ 0	$ 10,287
Negotiable Securities	186,452	244,722	394,662
Totals	$ 189,352	$ 244,722	$ 404,949
INTEREST DISTRIBUTIONS			
County General Fund	$ 0	$ 361	$ 0
Deferred Compensation Fund	5,102	3,788	2,188
Foothill Circulation Phasing Plan	1,375	0	0
John Wayne Airport	0	149	11,455
Sanitation Districts	0	1,318	2,651
Special District Bond Funds	12,651	27,067	9,641
Miscellaneous Districts & Fund	43	424	6
Totals	$ 19,171	$ 33,107	$ 25,941

The earnings from commingled investments is shown on Exhibit C and the earnings from specific investments is shown above.