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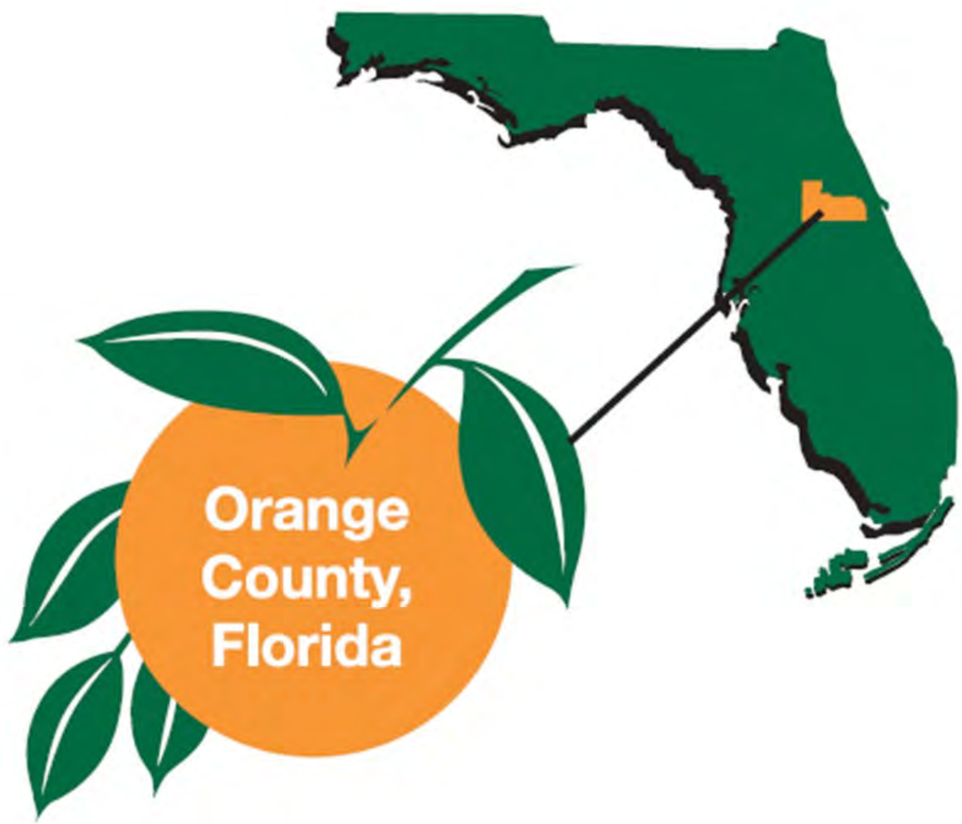
ANNUAL INVESTMENT REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2016



PHIL DIAMOND, CPA
COUNTY COMPTROLLER

ANNUAL INVESTMENT REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2016

PHIL DIAMOND, CPA
ORANGE COUNTY COMPTROLLER

EXECUTIVE SUMMARY

The portfolio earned $12.8 million for an effective rate of return of 0.87% on an average daily balance of $1.47 billion in Fiscal Year 2016. Investments were made in compliance with the Investment Policy's permitted investment types, composition limits and allowable maturities.

The portfolio is affected by domestic monetary policy and national economic activity. In December 2015, the Federal Reserve raised the fed funds target range to 0.25% to 0.50% from 0% to 0.25%. The Fed undertook the action in response to a strengthening labor market and its outlook for rising inflation rates. This pushed interest rates higher in the 6-month to 2-year section of the yield curve.

The overall portfolio is comprised of four sub-portfolios: current operating, noncurrent operating, intermediate term and debt service reserve. The current operating sub-portfolio, which has a maximum maturity of 13 months, represented 47.4% of the County's total portfolio. The noncurrent operating sub-portfolio, a five-year ladder, was 33.9% of the overall portfolio and the intermediate term sub-portfolio, a three-year ladder, represented 13.5% of the portfolio. These two longer-term sub-portfolios benefited from an upwardly sloping yield curve and generated 70% of returns. The debt service reserve sub-portfolio represented 5.2% of the total portfolio.

Actual interest income was $6,506,114 higher than the amount budgeted and $2,826,631 more than actual interest earnings in Fiscal Year 2015. The increase in interest earnings was led by a sharp increase in earnings in the current operating sub-portfolio. Earnings also increased in the intermediate term and debt service reserve sub-portfolios. These gains were partially offset by a decline in the noncurrent operating sub-portfolio.

Section 218.415 (15), Florida Statutes, requires the Orange County Comptroller to provide an annual report to the Board of County Commissioners of the securities in the portfolio by investment type, book value, market value and income earned. This information is presented below as of September 30, 2016.

Summary Table of Portfolio Performance

Investment Type	Book Value September 30, 2016	Market Value September 30, 2016	Interest Earned Fiscal Year 2016
U.S. Treasuries	$1,143,288,149	$1,150,174,003	$11,892,033
Florida PRIME (SBA)*	145,000,000	145,000,000	31,855
Federal Instrumentalities	114,750,654	114,812,907	620,130
Certificates of Deposit	20,000,000	20,000,000	126,572
Fixed Income Money Market Mutual Funds	65,798,277	65,798,277	173,274
Totals	$1,488,837,080	$1,495,785,187	$12,843,864

*Owned for only the final eleven days of the fiscal year.

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ANNUAL INVESTMENT REPORT
for the year ended September 30, 2016
ORANGE COUNTY, FLORIDA

I. INVESTMENT POLICY

Section 218.415, Florida Statutes provides units of local government with the ability to conduct investment activity outside the framework of that Statute that is consistent with a written plan adopted by the local governing body. Orange County's (County) investment activity is authorized by the Investment Policy (Policy) adopted by the Board of County Commissioners (BCC). The Policy applies to all investment activities and financial assets of the BCC excluding funds invested in the Orange County Retiree Health Care Benefit Trust, which was created solely to provide funding and payment of post-retirement benefits to beneficiaries. During Fiscal Year 2016, the Orange County Comptroller's Investment Committee (Committee) reviewed the Policy but did not recommend any revisions.

The County's investment activity was conducted in accordance with written procedures and internal controls.

II. INVESTMENT COMMITTEE

The Committee was established by the Orange County Comptroller (Comptroller) to formulate investment strategies, provide short-range direction, and monitor the performance and structure of the County's portfolio. The Committee consists of Comptroller staff and another qualified individual with financial expertise. The outside member of the Committee is Bob Tessier, Comptroller for the Orange County Library System.

III. INVESTMENT OBJECTIVES

The Policy describes three specific objectives to be applied in managing the County's investments. The primary objective is **safety** of the County's funds. The portfolio is managed in a manner that seeks to ensure the preservation of capital in the overall portfolio. To achieve this objective, investments are diversified across a variety of securities offering independent returns and maturities. On average in Fiscal Year 2016, approximately 89% of portfolio assets were invested in Treasuries and money market mutual funds comprised of Treasuries and Treasury-backed repurchase agreements due to ongoing turmoil in international financial markets. Treasuries are considered to have the lowest default risk of any security type because they are guaranteed by the full faith and credit of the United States Government.

The second objective is to maintain sufficient **liquidity**. The County's funds are invested to match maturities with forecasted expenditures for operating, payroll, and capital needs. Liquidity also encompasses the ability to sell an investment when necessary, with minimal delay and minimal loss of principal.

Maximizing yield on the portfolio is the County's third investment objective. This objective is only sought after the first two investment objectives are met.

IV. PORTFOLIO PERFORMANCE

Acceptable portfolio performance is the result of balancing the rewards of investing, or the income earned, with the risks associated with those investments. Factors influencing the portfolio's performance include the types of investments permitted, allowable maturities, liquidity requirements, domestic monetary policy, sensitivity of asset values to changes in market conditions, local economic activity (the dollars available to be invested) and the investment operation.

The portfolio earned $12.8 million for an effective rate of return of 0.87% on an average daily balance of $1.47 billion in Fiscal Year 2016. For comparison, the portfolio earned $10.0 million for an effective rate of return of 0.72% on an average daily balance of $1.39 billion in Fiscal Year 2015.

This report discusses in detail each of the factors influencing portfolio performance, as well as the County's depository banking relationship and debt refinancing activities.

V. PERMITTED INVESTMENTS AND ALLOWABLE MATURITIES

Table 1 summarizes the permitted investments, composition limits and maximum allowable maturities. The County's excess funds are invested according to Orange County Code Section 17-5, which authorizes the Comptroller to invest in specific permitted investment types. The permitted investments are restricted by the Policy's composition limits and maximum allowable maturities. The Policy also restricts the investment maturities of current operating funds to not more than 13 months, the investment maturities of noncurrent operating funds to not more than 60 months, and the investments of bond reserves, construction funds and other non-operating funds to a term appropriate to the need for the funds. Following is a brief description of each investment type. It is generally regarded that the following investment types are safe investments and meet the Policy's first objective, safety.

Table 1 – Permitted Investments

Investment Type	Composition Limit	Maximum Maturity
Florida PRIME (SBA)	40%	NA
Treasuries	100%	10 Years
Instrumentalities	45%	10 Years
CDs & Savings Accounts	30%	One Year
Repurchase Agreements	20%	30 Days
Bankers' Acceptances	15%	270 Days
Commercial Paper	15%	270 Days
Municipal Obligations	10%	Three Years
Money Markets	25%	NA

A. Florida Local Government Surplus Funds Trust Fund (Florida PRIME)

Florida PRIME is administered by the Florida State Board of Administration (SBA) for the purpose of pooling investment funds of local governments in an investment portfolio of money market instruments that provide liquidity while preserving capital. On February 13, 2008, the Trustees of the SBA hired Federated Investors to manage Florida PRIME, effective on March 1, 2008. As of October 1, 1997, the SBA had converted Florida PRIME to a "2a-7 like" investment pool (SEC Rule 2a-7 of the Investment Company Act of 1940). The SBA generally intends to maintain a weighted average maturity of 60 days or less, to invest at least 50% of the pooled assets in securities rated A-1+ or deemed of comparable quality, and to have no more than 25% of assets in a single industry sector, except the financial services industry. On September 30, 2016, Florida PRIME was invested in fixed rate and floating rate bank instruments, repurchase agreements, fixed rate and floating rate corporate commercial paper, floating rate corporate notes, money market mutual funds, and fixed rate and floating rate asset backed commercial paper. A maximum of 40% of the portfolio may be invested in Florida PRIME but when combined with money market mutual funds, may not exceed 50% of the portfolio.

B. U.S. Treasury Securities (Treasuries)

The securities comprising Treasuries are direct obligations of the U.S. Government. The securities are designated by maturity. Treasury bills have maturities of one year or less, Treasury notes have maturities of two to 10 years, and Treasury bonds have maturities of more than 10 years. The prices of the longer maturities are more volatile because they are more sensitive to interest rate fluctuations. Treasury yields are typically lower than yields on debt issued by federal agencies sponsored by the U.S. Government.

C. Federal Agency Securities (Instrumentalities)

Instrumentalities are securities issued by federal agencies sponsored by the U.S. Government. The Policy allows purchases of bonds, notes or debentures of the issuing agencies including Federal Farm Credit Banks, Federal Home Loan Bank or its district banks, Federal National Mortgage Association (Fannie Mae), and Federal Home Loan Mortgage Corporation (Freddie Mac). Instrumentalities vary in maturities. Yields on Instrumentalities are typically greater than yields of similar Treasuries. The Policy further restricts investments in any one agency to 15% of the portfolio.

D. Certificates of Deposit and Savings Accounts (CDs/Savings)

The Comptroller may invest in nonnegotiable, interest bearing CDs and savings accounts in state or national banks located in Florida, and having their deposits secured by Chapter 280, Florida Statutes, known as the Florida Security for Public Deposits Act. The issuing bank must not be listed with any nationally known credit watch organization. There is some liquidity risk with CDs because they are subject to penalties for early withdrawal. The Policy further restricts CDs/Savings in any one bank to 5% of the portfolio.

E. Repurchase Agreements (Repos)

A Repo is a financial transaction in which the County exchanges cash for ownership of specific securities with a simultaneous agreement to sell back the securities. Overnight Repos mature in one day. Other Repos are written to mature in specific multi-day periods and are known as term Repos. Other Repos are written as open transactions with indefinite terms subject to liquidation by either party. Yields tend to run close to the federal funds rate. The Policy calls for the specific securities to be only those Treasuries or Instrumentalities allowed by the Policy with maturities less than five years and having a market value of 102% during the term. The County will enter into a Repo transaction only with qualified financial institutions, which have executed a Master Repurchase Agreement with the Comptroller. The Policy further restricts transactions with any one financial institution to 5% of the portfolio, except for overnight Repos.

F. Bankers' Acceptances (BAs)

BAs are generally bearer form securities comprised of underlying letters of credit used to finance international trade. A BA is created from a letter of credit issued by an importer's bank to pay a foreign exporter for goods expected to be received. The exporter will normally present this letter of credit to its bank for a discounted payment. The exporter's bank then presents the letter of credit to a U.S. correspondent bank for payment at which time it is marked *Accepted*. Upon acceptance, the BA becomes an irrevocable and unconditional obligation of the accepting bank, and it is also an obligation of the importer and any endorser thereof. BAs typically have maturities of 180 days or less. Yields are generally greater than Treasuries and Instrumentalities of similar maturity. The Policy requires BAs to be inventory-based, issued by a domestic bank that has an uninsured and unguaranteed obligation rating of at least P-1 and A by Moody's Investors Service and A-1 and A by Standard & Poor's, and ranked in the top 50 domestically chartered insured commercial banks that have consolidated assets of $300 million or more as reported by the Federal Reserve Board. The Policy further restricts the investment with any one financial institution to 5% of the portfolio.

G. Commercial Paper (CP)

CP is unsecured short-term debt issued primarily by corporations to finance receivables and other short-term needs. CP has a maximum maturity of 270 days. Yields are typically greater than Treasuries and Instrumentalities of similar maturity. The Policy requires the issuer to be rated P-1 by Moody's Investors Service and A-1 by Standard & Poor's and, if backed by a letter of credit, the long-term debt of the credit provider must be rated at least A by two nationally recognized rating agencies. The credit provider must also be ranked in the top 50 domestically chartered insured commercial banks that have consolidated assets of $300 million or more as reported by the Federal Reserve Board. The Policy further restricts the investment with any one financial institution to 2.5% of the portfolio.

H. Municipal Obligations

For situations necessary to comply with arbitrage regulations, the Comptroller may invest in taxable and tax-exempt debt, and general obligation and revenue bonds issued by state and local governments. Long-term debt must be rated at least Aa by Moody's Investors Service and AA by Standard & Poor's. Short-term debt must be rated at least MIG-2 by Moody's Investors Service and SP-2 by Standard & Poor's. The Policy further restricts the investment with any one issuer to 3% of the portfolio.

I. Fixed Income Money Market Mutual Funds (Money Markets)

Money Markets are pools of securities providing income and liquidity. The Policy enables the Comptroller to invest in SEC qualified fixed income Money Markets with underlying investments in Treasuries and Treasury-backed repurchase agreements. The average maturity of the underlying investments may not exceed one year. A maximum of 25% of the portfolio may be invested in Money Markets but when combined with Florida PRIME may not exceed 50% of the portfolio. The Policy further restricts the investment with any one fund to 10% of the portfolio.

VI. LIQUIDITY REQUIREMENTS

The second objective in managing the County's investments is the provision for sufficient liquidity. On a regular basis, the County's receipts and disbursements are analyzed to determine trends in cash inflow and outflow. Cash inflows are invested upon receipt and immediately become part of the portfolio.

The portfolio provides cash for daily payment of operating and capital expenditures, biweekly payment of payroll expenditures, and semiannual debt service payments. Debt service payments are funded through sinking funds held by the County. Compared to Fiscal Year 2015, average daily payments for operating and capital expenditures increased to $5.4 million from $5.3 million, and average biweekly payments for payroll expenditures rose to $13.7 million from $13.6 million.

Total debt service payments fell to $100.0 million from $111.8 million in Fiscal Year 2015. The debt service payments exclude $3.7 million of debt service funds used to refinance bonds in Fiscal Year 2016 and $9.5 million in Fiscal Year 2015. The lower debt service payments reflect the refunding of the Tourist Development Tax Refunding Revenue Bonds, Series 2005 with proceeds from the issuance of Tourist Development Tax Refunding Revenue Bonds, Series 2015. The first principal payment on the Series 2015 Bonds is scheduled for Fiscal Year 2017. In addition, there was no outstanding debt on the Water Utilities System in Fiscal Year 2016. The final debt service payment on Water Utilities System Refunding Revenue Bonds, Series 1998 occurred in Fiscal Year 2015.

VII. DOMESTIC MONETARY POLICY AND NATIONAL ECONOMIC ACTIVITY

In addition to the types of permitted investments and allowable maturities, and liquidity requirements, portfolio performance is influenced by domestic monetary policy and national economic activity. The Policy provides that the Comptroller will utilize federal funds rates, Treasury yield curves, and major U.S. economic barometers in making investment decisions. Yields usually fall or remain stable when monetary policy and economic indicators point to declines in inflationary pressure. Yields usually rise when the economy shows signs of increasing inflation. Domestic monetary policy and economic activity significantly influence the County's portfolio performance.

The Federal Reserve Board (Fed) conducts domestic monetary policy. The Fed controls monetary policy through open market operations, the discount rate and bank reserve requirements. The Fed's Board of Governors administers the discount rate and bank reserve requirements, and the Federal Open Market Committee (FOMC) conducts open market operations. Open market operations have the most significant impact on the County's portfolio performance. The FOMC reviews economic and financial conditions, assesses risks to the economic outlook and attempts to alter the federal funds rate through monetary policy. The federal funds rate is the interest rate at which banks lend to other banks overnight. Changes in federal funds rates trigger events that affect other short term interest rates and, ultimately, a range of economic variables.

On December 16, 2015, the FOMC increased the overnight lending rate for the first time in nearly a decade. The Committee increased the target range for federal funds to 0.25% to 0.50% from 0% to 0.25%. The Fed took the action in response to considerable improvements in the labor market and its outlook for rising inflation rates. At this point in time, the economy was expanding at a moderate pace, business fixed investment was increasing and the housing market was showing signs of improvement. Despite the rate hike, the Fed continued to describe its monetary policy as accommodative. The policy was designed to support continued improvement in the labor market and increase inflation to the Fed's 2% target.

Yields on Treasury bills and short-term Treasury notes are strongly influenced by the federal funds rate, as well as anticipated changes in this rate. The average Treasury yield curve flattened during Fiscal Year 2016 as short-term rates increased and long-term rates fell. The yield on the 3-month Treasury increased by 21 basis points; 6-month, 29 basis points; 1-year, 30 basis points; and 2-year, 18 basis points. However long-term yields declined. The yield on the 5-year Treasury fell 20 basis points; 10-year, 30 basis points and 30-year, 21 basis points.

The higher rates in the two-year section of the curve were primarily attributable to the rate hike in December 2015 and the expectation for additional monetary tightening. Not only did rates increase but the yield curve steepened out to one year. The spread between the average yields on the 1-year Treasury over the 3-month Treasury was 30 basis points compared with 21 basis points in Fiscal Year 2015. In September, futures markets reflected rising expectations for the FOMC to increase the fed funds rate at its December 2016 meeting.

Subsequent to the end of the fiscal year, on December 14, 2016, the FOMC raised the fed funds target range to 0.50% to 0.75% from 0.25% to 0.50%. The Fed increased rates due to the strengthening labor market and its expectation for higher rates of inflation. The Committee continued to describe monetary policy as accommodative despite the increase in rates.

Significant rate declines occurred in the 5-year to 30-year sector of the curve. The low long-term rates were attributable to slow economic growth, low inflation and turmoil in international markets. U.S. Treasury securities appeared to be providing good value relative to the global bond market. More than $10 trillion of sovereign debt was trading at negative yields at the end of the fiscal year. The yields on 10-year bonds in Germany, Japan and Switzerland were negative.

Approximately 89% of the County's portfolio was invested in Treasuries and Money Markets comprised of Treasuries and Treasury-backed repurchase agreements. Yields on the Money Markets were 20 basis points or lower, while the average yield on Treasuries with maturities of thirteen months or less was 56 basis points. The overall portfolio benefited from returns on longer-term investments in the noncurrent operating sub-portfolio, a 5-year investment ladder, and the intermediate term operating portfolio, a 3-year ladder. The returns on these sub-portfolios were enhanced by an upwardly sloping yield curve and capital gains on roll down the yield curve trades. These investment ladders were the primary reason the rate of return on the portfolio exceeded the fed funds intended and effective rates by a substantial margin.

Shown below in Chart 1 are the average 30-year Treasury yield curves for fiscal years 2012 through 2016, followed by Chart 2, which compares the monthly portfolio rates of return with the monthly intended and effective federal funds rates for the same period.

Chart 1 – Average U.S. Treasury Yield Curves

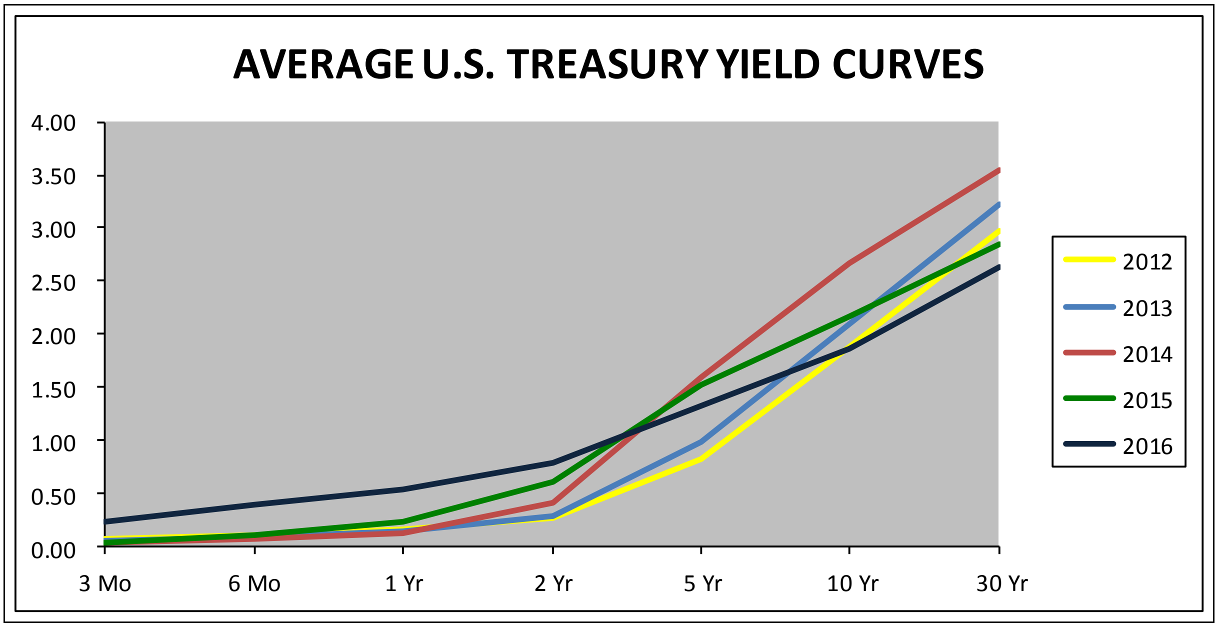
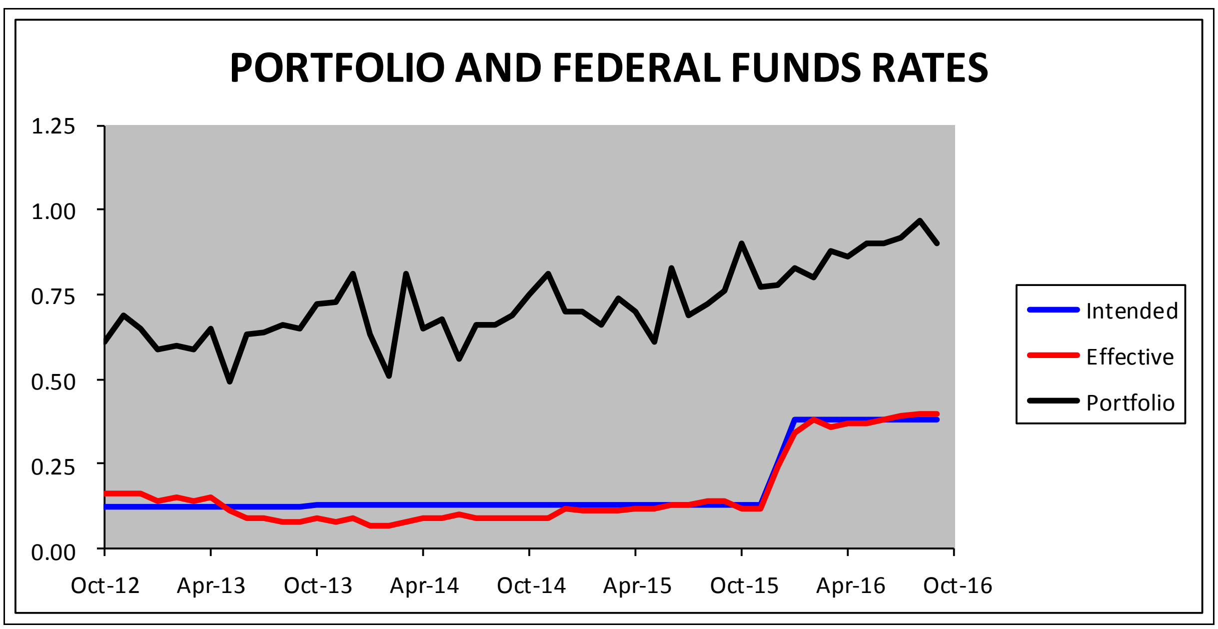
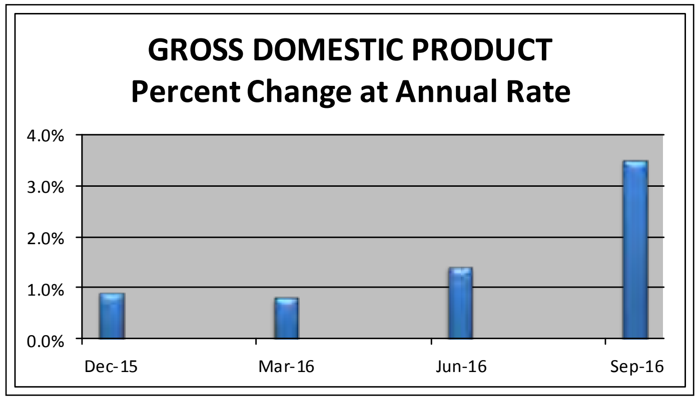


Chart 2 – Portfolio and Federal Funds Rates



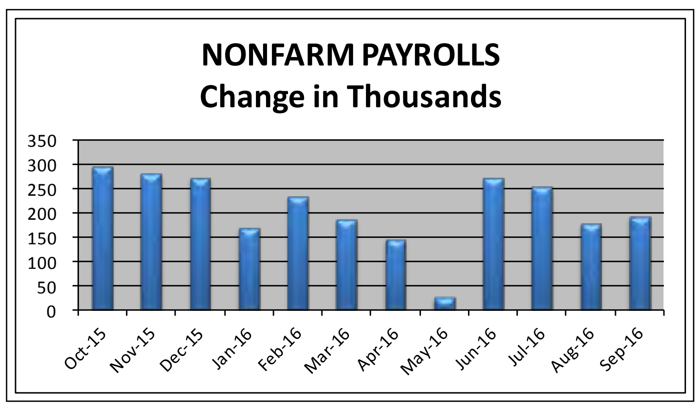
Barometers measure national economic activity by various economic variables. Those variables significantly influence interest rates on most government and corporate securities nationwide. Shown below in Charts 3 through 13 are the barometers followed by the Comptroller in developing investment strategy during the fiscal year, together with a brief explanation of each.

Chart 3 – Gross Domestic Product



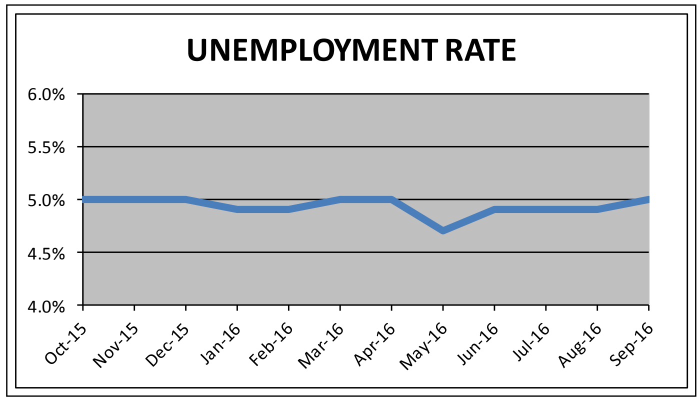
Gross domestic product (GDP) is a measure of the total value of goods and services produced in the United States for a given time period. Quarterly percent changes in the chain price index provide a broad-based estimate of GDP at constant, or inflation adjusted, dollar prices. GDP is the most comprehensive economic scorecard because it is the broadest measure of aggregate economic activity including personal consumption expenditures, investment, net exports, and government expenditures. Changes in the GDP chain price index are a widely followed, market-moving indicator. GDP is published by the U.S. Department of Commerce.

Chart 4 – Nonfarm Payrolls



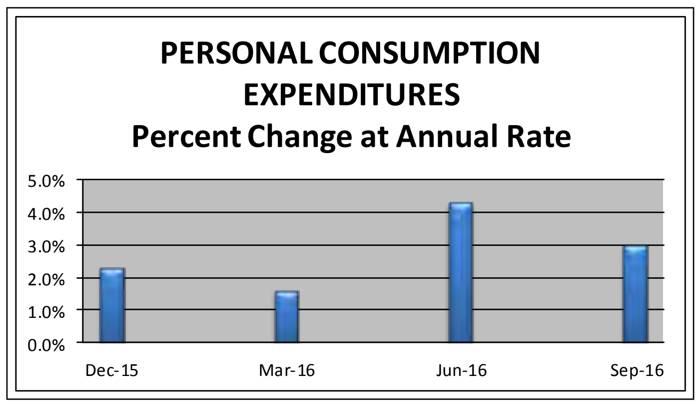
Nonfarm payrolls (NFP) measure the number of jobs in the nonagricultural economy. Monthly changes reflect the changes in actual numbers of paid employees in business and government establishments. NFP is a coincident indicator of the level of economic activity. Changes are closely watched because they are representative of the state of the economy. NFP is published by the U.S. Department of Labor.

Chart 5 – Unemployment Rate



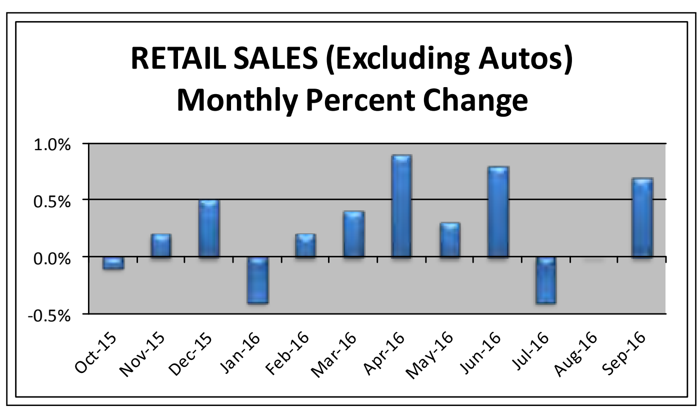
The unemployment rate is the ratio of the total number of unemployed to the total labor force. The labor force consists of those working and those seeking employment. Monthly changes in this rate and NFP are widely regarded together as the primary monthly economic indicator because the combined data helps forecast other important economic barometers. The unemployment rate is published by the U.S. Department of Labor.

Chart 6 – Personal Consumption Expenditures



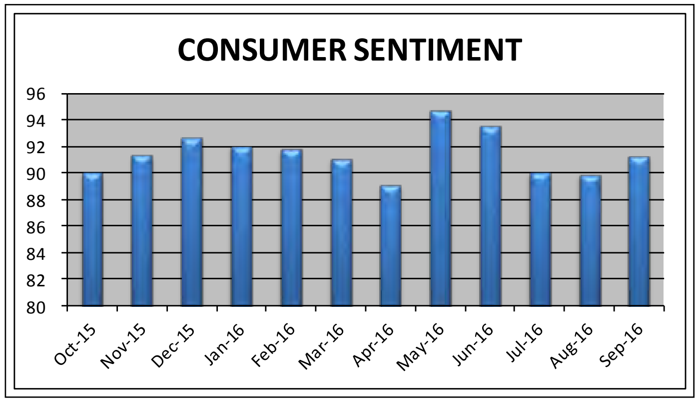
Personal consumption expenditures (PCE) is a measure of goods and services purchased by persons in the United States. PCE is the most important and typically the most stable of the four components that comprise GDP. PCE normally represents more than two-thirds of GDP. The three sectors of PCE are durable goods (expected to last three years or more), nondurable goods (less than three years) and services. Services account for approximately 65% of PCE. The U.S. Department of Commerce publishes PCE.

Chart 7 – Retail Sales (Excluding Autos)



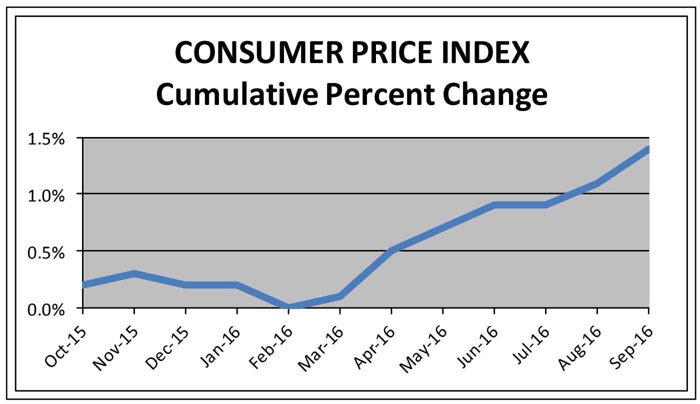
Retail sales is a measure of consumer spending for a given month. This reading is used to help forecast PCE and GDP. The control component, retail sales excluding autos, is used to measure the growth rate in the non-service component of PCE. This indicator is hard to forecast and the market is often sensitive to large, unexpected readings. The U.S. Census Bureau of the Department of Commerce publishes retail sales.

Chart 8 – Consumer Sentiment



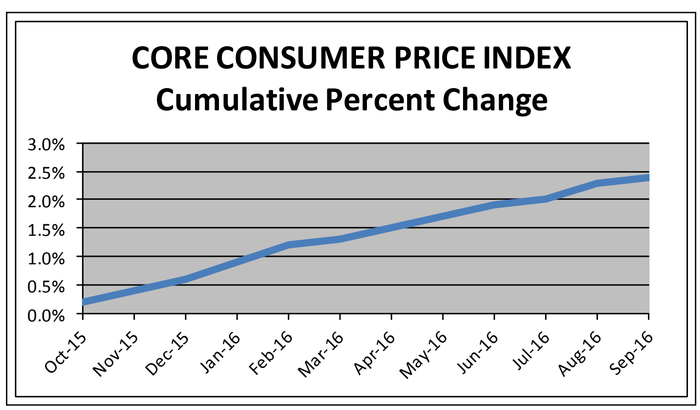
Consumer sentiment is a measure of how consumers view prospects for their own financial condition, how they view prospects for the general economy in the near term, and their view of the economy over the long term. Monthly levels of consumer sentiment are included in the Conference Board's Index of Leading Economic Indicators and are associated with consumer spending. The University of Michigan and Thomson Reuters publish the report on consumer sentiment.

Chart 9 – Consumer Price Index



The consumer price index (CPI) is a measure of the average price of a fixed basket of goods and services that consumers in the U.S. buy on a regular basis. Monthly percent changes in the index reflect the average change in consumer prices. The CPI is widely followed and regarded by many as the measure of inflation. CPI is published by the U.S. Department of Labor.

Chart 10 – Core Consumer Price Index



Core CPI excludes food and energy costs from the CPI. The core CPI rate is believed by many to be a better approximation of underlying inflation than the CPI because it removes items that are subject to large, temporary price changes. Economists and market analysts monitor core CPI for its greater monthly stability. Core CPI is also published by the U.S. Department of Labor.

Chart 11 – Producer Price Index

The producer price index (PPI) is a measure of the average level of prices of a fixed basket of goods and services received by domestic producers. Monthly percent changes reflect the rate of change in such prices. Changes in the PPI are widely followed as a significant indicator of inflation trends. PPI is published by the U.S. Department of Labor.

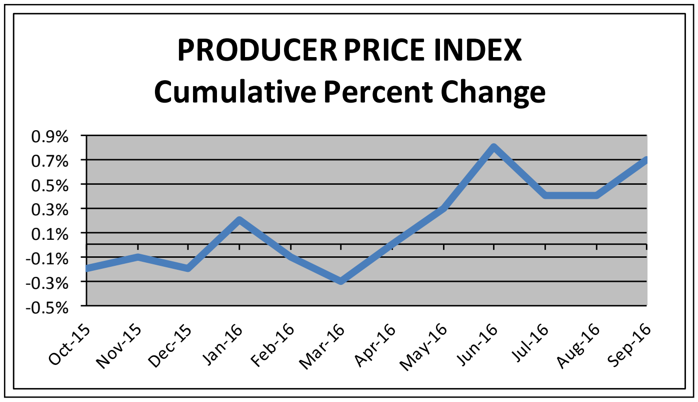


Chart 12 – Housing Starts

Housing starts is a measure of the number of residential units on which construction has begun each month. The level of housing starts is widely followed as a significant indicator of residential construction trends and demand for furniture, home furnishings, and appliances. Housing starts is published by the U.S. Department of Commerce.

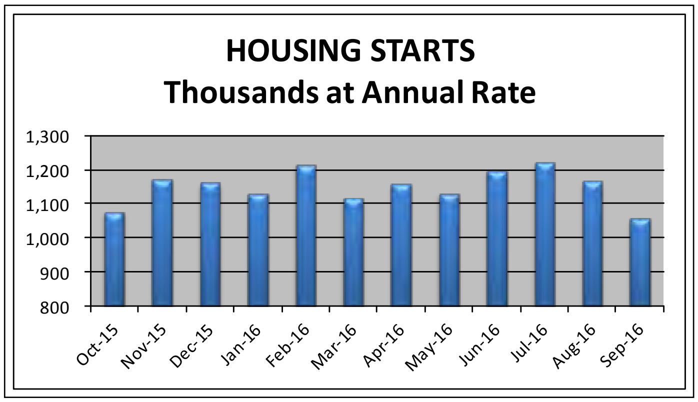
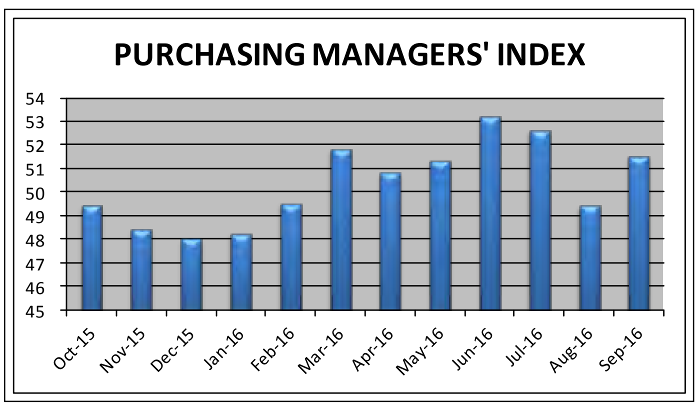


Chart 13 – Purchasing Managers' Index

The purchasing managers' index (PMI) is derived from surveys of purchasing managers about the general direction of production, orders, inventories, employment, vendor deliveries and prices. PMI is an indicator of overall factory sector trends. Historically, readings above 50 are associated with expanding manufacturing activity; readings over 42.7 indicate that the overall economy is expanding. Readings below 50 are typically associated with contractions in manufacturing and readings below 42.7 indicate that the overall economy is contracting. PMI is widely followed because it gauges momentum in manufacturing and corporate earnings. The Institute for Supply Management publishes PMI.



Going into Fiscal Year 2016, economists projected moderate economic expansion. According to a Bloomberg survey, GDP was expected to average roughly 2.6% in 2016. The rate of inflation was modest due to lower prices for energy and imported goods. Nonfarm payrolls were expanding and unemployment was trending downward, and slack in the labor market had declined substantially. The Fed forecasted a target overnight rate of 1.375% for calendar year 2016, which implied four quarter point rate hikes. The Fed noted the significant improvement in labor markets and was "reasonably confident" inflation would rise to its 2% objective.

Indicated in Charts 3 through 13, the barometers reflect varying economic conditions throughout the fiscal year. According to GDP, the economy was growing at an annual rate of 0.9% in the first quarter of the fiscal year following a revised 2.0% growth rate in the fourth quarter of the previous fiscal year. Economic expansion was pressured by rising labor costs, a stronger U.S. dollar and weakness in overseas markets. The economy was steadied by consumer spending and an improving labor market. Nonfarm payrolls increased by an average of 282,000 jobs per month during the first quarter of the fiscal year and unemployment was 5.0%. The resilient labor market prompted the Federal Reserve to increase the fed funds target range in December 2015 to 0.25% to 0.50% from 0% to 0.25%.

The pace of GDP growth slowed to 0.8% in the quarter ended March 31, 2016. The tepid growth was largely attributable to significant deceleration in consumer spending. PCE fell to a 1.6% annualized growth rate, the lowest reading in two years, from 2.3% in the first quarter. The decline reflected lower spending on transportation and recreation services. The housing sector also showed signs of losing momentum during the quarter. In March, housing starts fell 8.2% to 1.113 million, the lowest reading since October 2015. Building permits, an indicator of future construction, declined 7.3% to an annual low of 1.077 million. However, the labor market held up very well despite weak economic growth domestically and internationally. The economy added an average of 196,000 jobs per month during the quarter and the unemployment rate was 5.0% in March.

GDP rebounded in the quarter ended June 30, 2016, increasing to an annual growth rate of 1.4%. Household spending once again drove the economy, offsetting lackluster business investment and listless demand in global markets. Consumer spending surged 4.3% higher on rising employment and burgeoning wage growth. After two months of soft job growth, payrolls added 271,000 jobs. The unemployment rate dipped to an annual low of 4.7% in May but rose to 4.9% in June as more people returned to the workforce. CPI and PPI reports published during the quarter suggested that inflation was beginning to stir. CPI was propelled upward by rising costs for shelter and fuel and reached a three-year high of 0.4% in April. The PPI increased 0.5% in June, the largest monthly increase since May 2015. The increase in wholesale prices reflected higher energy costs.

GDP growth jumped to a 3.5% annual growth rate in the quarter ended September 30, 2016. The economy continued to be powered by consumer spending, which increased 3.0% during the quarter. A sharp increase in exports also made a substantial contribution to GDP. However, business investment remained a soft spot. The average monthly increase in nonfarm payrolls exceeded 200,000 during the fiscal fourth quarter. The unemployment rate rose to 5% due to greater labor force participation. Inflation data continued to suggest that the cost of living in the United States was climbing. The growing economy, strengthening labor market and rising inflation appeared to move the Federal Reserve closer to raising interest rates.

Going into Fiscal Year 2017, economists continue to project moderate economic expansion. According to a Bloomberg survey, GDP is expected to average roughly 2.2% in calendar year 2017. The economy was moving toward full employment and inflation was progressing to the Federal Reserve's 2% target. Subsequent to the end of the fiscal year, on December 14, 2016, the Federal Reserve increased the fed funds target range to 0.50% to 0.75% from 0.25% to 0.50%. The Fed projected three rate hikes in calendar year 2017 to bring the overnight lending rate up to 1.4%. However, President-elect Trump's plans for tax cuts and infrastructure spending clouded the outlook for inflation.

VIII. LOCAL ECONOMIC ACTIVITY

In addition to the types of permitted investments and allowable maturities, liquidity requirements, and domestic monetary policy and national economic activity, the portfolio's effective rate of return is influenced by the local economy. The County derived approximately 79% of its Fiscal Year 2016 revenues from 12 revenue sources including several taxes, user fees and charges, state-shared revenues and investment income. Shown in Table 2 are the County's 12 major revenues received in Fiscal Years 2016 and 2015.

Table 2 – Orange County's 12 Major Revenue Sources

Revenue	FY 2016	FY 2015
Ad Valorem Tax	$645,409,628	$585,018,812
Tourist Development Tax	239,528,483	226,178,591
Water Utilities System Operations	175,414,291	165,339,405
Half-Cent Sales Tax	166,337,860	160,187,901
Public Service Tax	93,562,891	92,572,385
Impact Fees (excl. School Impact Fees)	78,283,058	49,391,502
Convention Center Operations	59,793,653	59,162,910
Fuel Taxes	45,756,707	43,947,186
Mandatory Refuse Fees	40,561,456	47,138,175
State Revenue Sharing	39,343,567	37,922,382
Solid Waste Tipping Fees	29,852,148	30,795,554
Interest Earnings	**12,843,864**	**10,017,233**
Totals	$1,626,687,606	$1,507,672,036

IX. INVESTMENT OPERATIONS

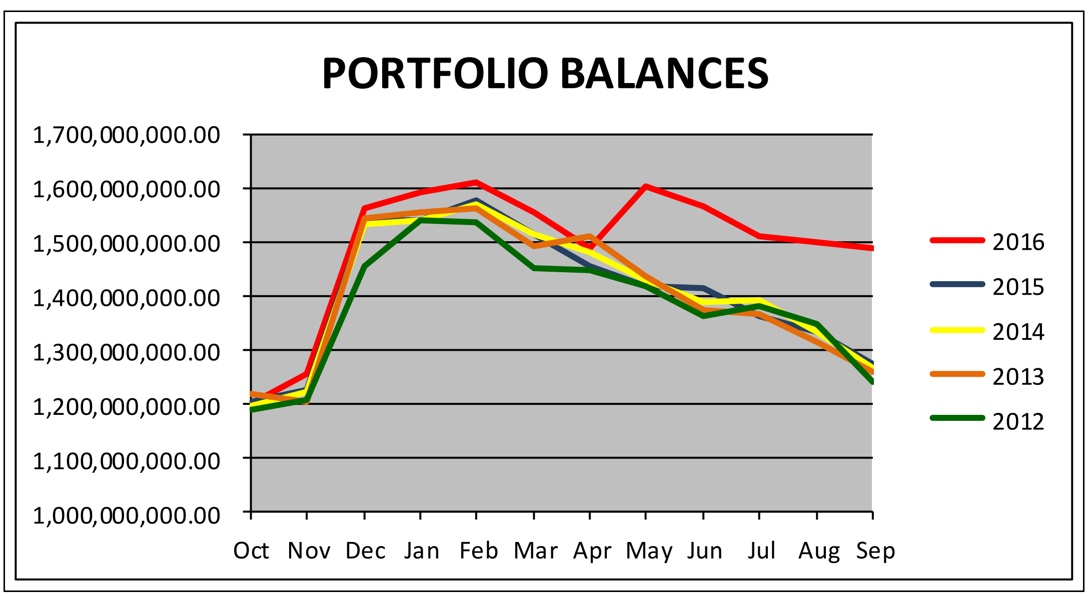
Qualified professionals in the Comptroller's Office conduct investing activities in accordance with Florida Statutes, County Ordinances, and written policies and procedures. Monthly reports of investment activity and positions are prepared and distributed to Comptroller management, management of the BCC, and the Investment Committee. Regular meetings of the Committee are held to monitor the portfolio, evaluate investment performance and discuss investment strategies.

The Comptroller uses sophisticated techniques in carrying out its investment activities including the use of electronic bank and trust account systems; electronic funds transfer; on-line, real-time monitoring of U.S. securities markets; and electronic trading. Bank account balances, cash requirements, investment positions and trust account activity are determined daily. Current conditions and evaluations of domestic monetary policy and national economic activity are considered in purchasing investments.

A. Portfolio Balances

The portfolio's opening balance for Fiscal Year 2016 was $1.27 billion, essentially unchanged from the opening balance in Fiscal Year 2015. The portfolio's average daily balance was $1.47 billion, up $84.4 million from the prior year. Balances were boosted by $93.5 million of proceeds added in May from the issuance of Water and Wastewater Utility Revenue Bonds, Series 2016. The portfolio's ending balance for Fiscal Year 2016 was $1.49 billion. Expenditures from the portfolio rose to $1.82 billion from $1.80 billion in 2015. The increase was attributable to larger operating and capital expenditures and payroll disbursements. Shown in Chart 14 are the portfolio balances as of the end of each month in fiscal years 2012 through 2016.

Chart 14 – Portfolio Balances



B. Portfolio Composition

As of September 30, 2016, the portfolio was fully invested in permitted investments within allowable composition limits. As shown in Chart 15 below, the portfolio contained Treasuries, Florida PRIME (SBA), Instrumentalities, CDs and Money Markets comprised of Treasuries and Treasury-backed repurchase agreements. Chart 16, September 30, 2015 Portfolio Composition by Investment Type, is presented for comparative purposes.

Chart 15 – September 30, 2016 Portfolio Composition by Investment Type

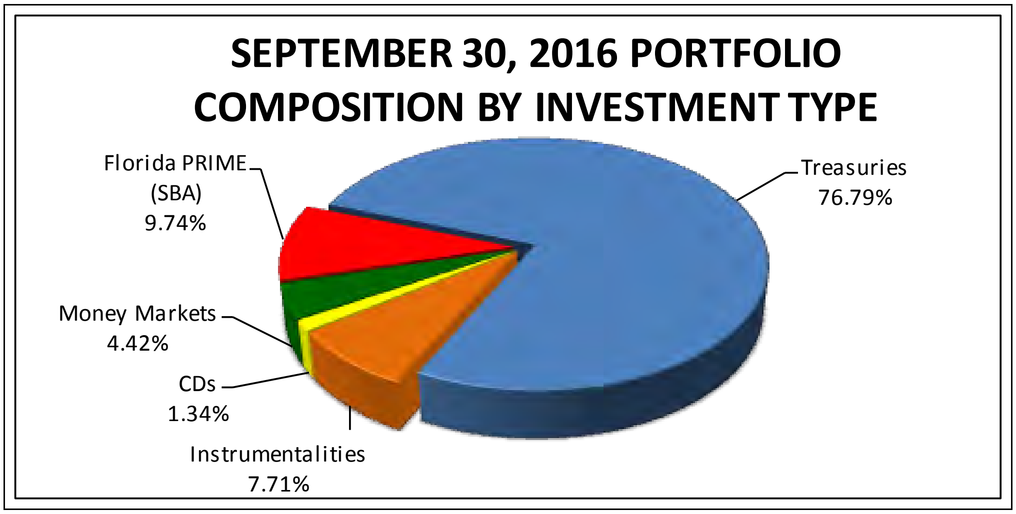
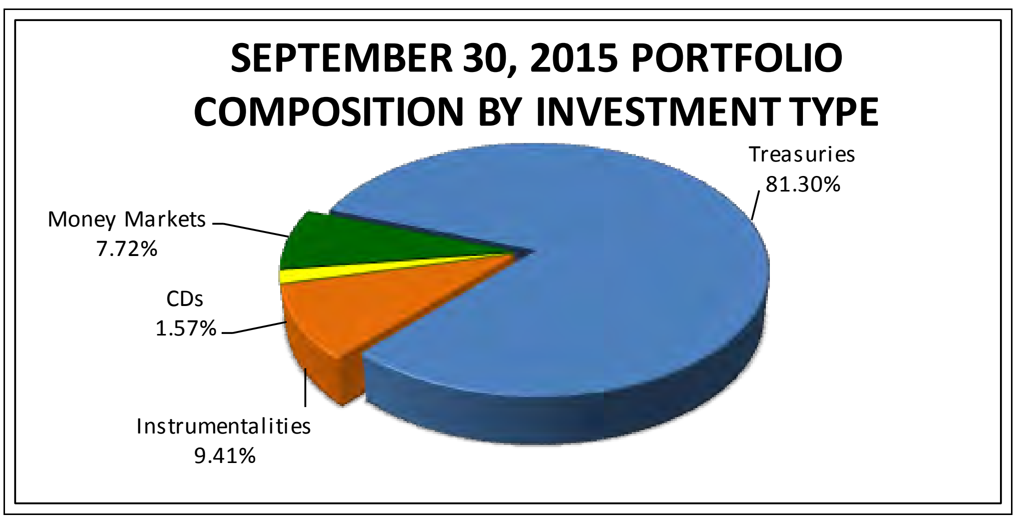


Chart 16 – September 30, 2015 Portfolio Composition by Investment Type



The portfolio was managed in compliance with the Policy, which requires the portfolio to be diversified by investment type. However, Treasuries may represent 100% of the portfolio because they are backed by the full faith and credit of the United States Government. During Fiscal Year 2016, the average composition of the portfolio shifted modestly to Florida Prime (SBA), CDs and Instrumentalities from Treasuries and Money Markets. Changes in the average portfolio composition can be seen in Charts 17 and 18.

Chart 17 – FY 2016 Average Portfolio Composition by Investment Type

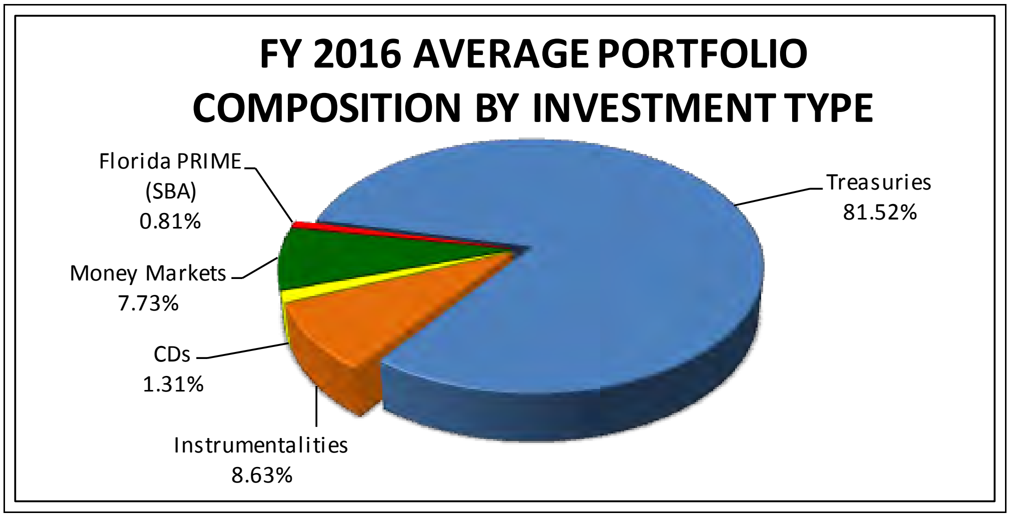
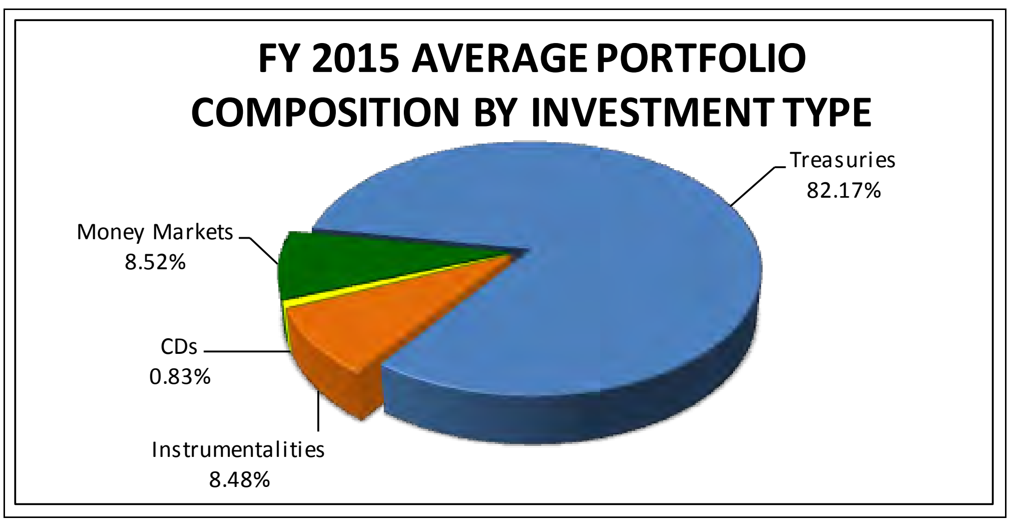


Chart 18 – FY 2015 Average Portfolio Composition by Investment Type



The portfolio is comprised of four sub-portfolios: current operating, intermediate term, noncurrent operating and debt service reserve. The current operating portfolio has a maximum maturity of 13 months and is managed to meet operating, payroll and debt service requirements. The intermediate term portfolio has a maximum maturity of 36 months and was established to increase returns on excess liquidity and diversify investment maturities across the yield curve. The noncurrent portfolio is comprised of a 5-year ladder designed to meet longer term funding requirements. Investments in the debt service reserve portfolio are governed by the County's bond covenants. A separate project construction fund was not established for the proceeds from the issuance of the Water and Wastewater Utility Revenue Bonds, Series 2016. The majority of proceeds were expected to be spent quickly. The Policy requires debt service reserve and project construction investments to have terms that coincide with the expected use of the funds and in accordance with debt covenants, but not to exceed 10 years. The September 30, 2016 Portfolio Composition by Sub-portfolio is presented below. Chart 20, September 30, 2015 Portfolio Composition by Sub-portfolio, is presented for comparative purposes.

Chart 19 – September 30, 2016 Portfolio Composition by Sub-portfolio

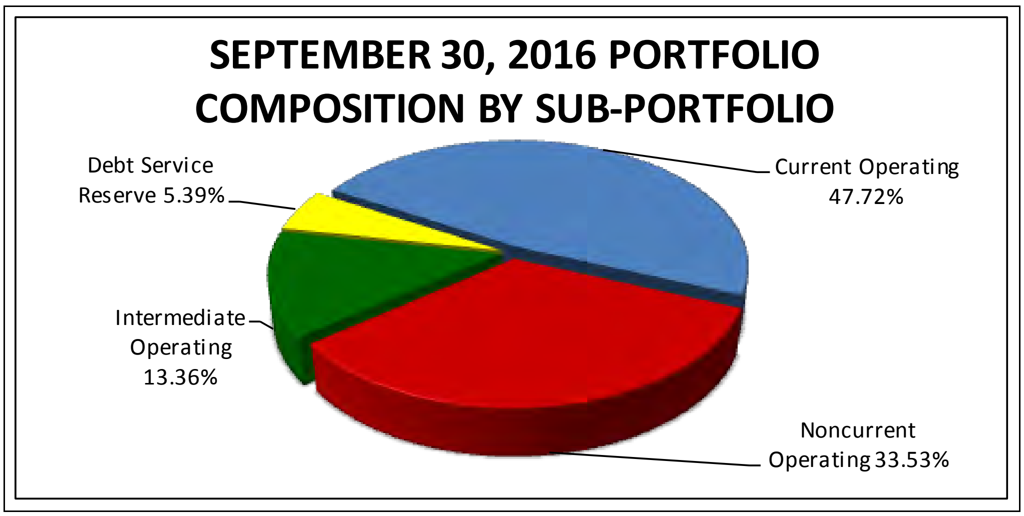
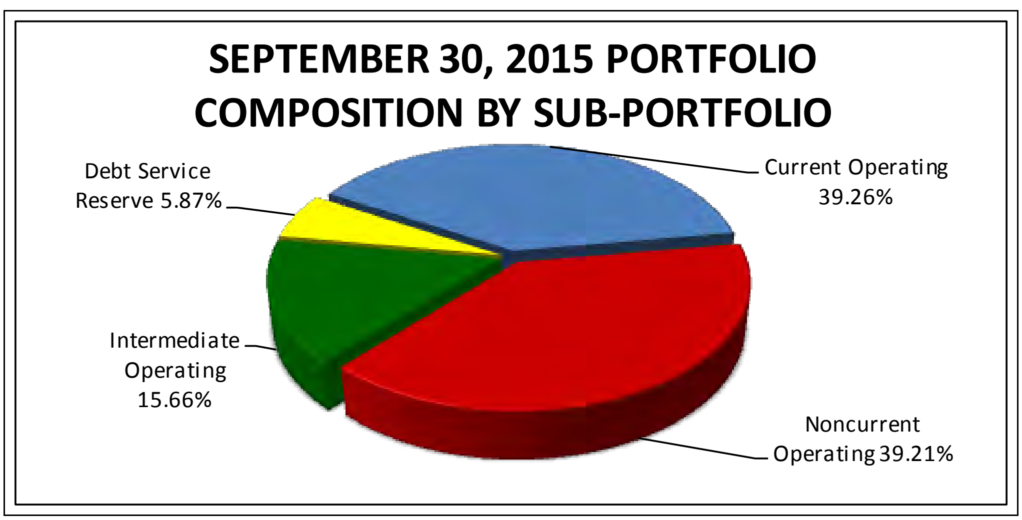


Chart 20 – September 30, 2015 Portfolio Composition by Sub-portfolio



The average composition of the portfolio shifted to current operating funds from intermediate operating and noncurrent operating funds. An increase in the average balance of the overall portfolio was invested in the current operating portfolio, while the investment balances in the intermediate and noncurrent sub-portfolios were held constant. The change in average composition by sub-portfolio is presented below in Charts 21 and 22.

Chart 21 – FY 2016 Average Portfolio Composition by Sub-portfolio

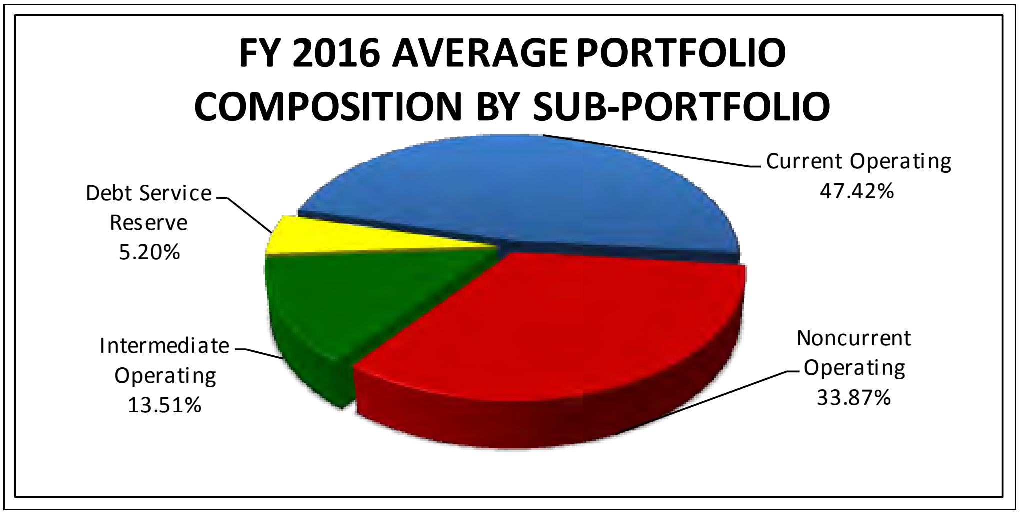
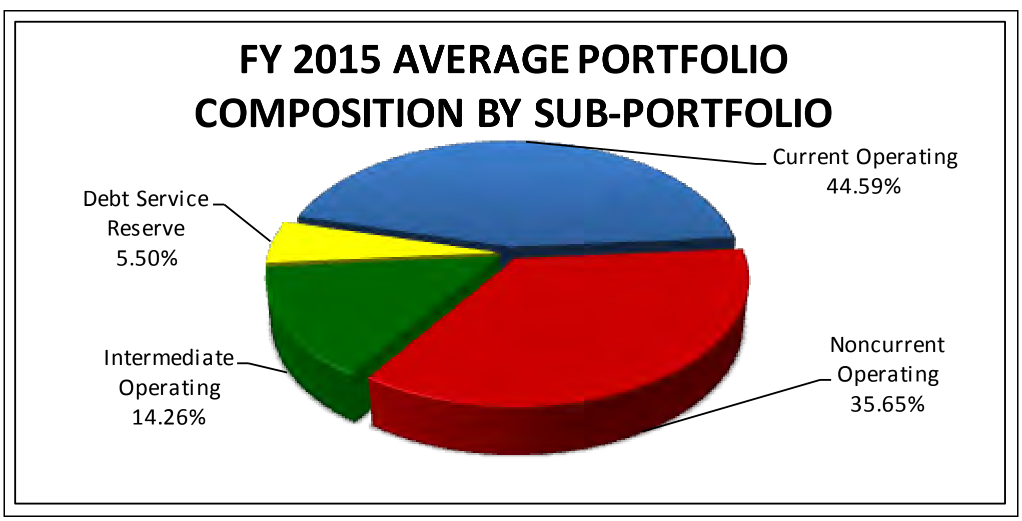


Chart 22 – FY 2015 Average Portfolio Composition by Sub-portfolio



C. Portfolio Maturities

Table 3 – Year-end Average Term by Investment Type		
Investment Type	FY 2016	FY 2015
Florida PRIME (SBA)	1	NA
Money Market Funds	1	1
Instrumentalities	332	329
Certificates of Deposit	365	366
Treasuries	1,129	1,208

The Policy requires sufficient liquidity and diversity in maturities. Shown in Table 3 are the average terms of each investment type at September 30, 2016 and 2015. Average term is the weighted average number of days from purchase to maturity of the investment. Average terms extend past 13 months in some cases due to the long-term investment of noncurrent operating funds, intermediate term funds, project construction funds and debt service reserve funds. The longer term of Treasury investments reflects efforts to extend maturities in a normal, or upward sloping, yield curve environment during the year.

Available balances were invested for an average term of 906 days in Fiscal Year 2016 compared with an average term of 935 days in Fiscal Year 2015. Table 4 below reports the average term of the portfolio for each month in Fiscal Years 2016 and 2015. The portfolio's average days to maturity was 542 days in Fiscal Year 2016 compared with 556 days in 2015. Average days to maturity is the average number of days remaining to maturity for the portfolio. Table 5 below reports the average days to maturity for each month in Fiscal Years 2016 and 2015. The average term and average days to maturity fell due to an increase in the balance in the current operating portfolio, while the balance of investments in the noncurrent operating and intermediate term portfolios was unchanged .

Table 4 – Average Term

Period	FY 2016	FY 2015
October	1,066	1,036
November	1,020	1,025
December	858	857
January	867	857
February	857	843
March	876	875
April	907	908
May	845	925
June	873	926
July	906	967
August	904	976
September	897	1,019
Average	906	935

Table 5 – Average Days to Maturity

Period	FY 2016	FY 2015
October	623	630
November	587	636
December	510	538
January	526	524
February	500	509
March	534	533
April	538	547
May	507	537
June	533	540
July	554	554
August	549	547
September	538	579
Average	542	556

D. Interest Earnings and Yields

The dollar amount of interest earnings is used in historical and budgetary comparisons, and in cash flow analysis. The portfolio earned $12,843,864 on an average daily balance of $1,473,824,375 in Fiscal Year 2016. For comparison, the portfolio earned $10,017,233 on an average daily balance of $1,389,461,315 in Fiscal Year 2015. Actual interest income was $6,506,114 more than the budgeted amount in Fiscal Year 2016. For comparison, actual interest income was $4,621,318 more than the budgeted amount in Fiscal Year 2015. Budgeted and actual interest earnings for both fiscal years are shown in Table 6 below.

Table 6 – Budget and Actual Interest Earnings

	FY 2016	FY 2015
Actual	$12,843,864	$10,017,233
Budget	6,337,750	5,395,915
Variance	$6,506,114	$4,621,318

Interest earnings and the effective rate of return on each sub-portfolio are shown below in Table 7. The Fiscal Year 2015 interest earnings and effective rate of return by sub-portfolio are provided in Table 8 for comparison.

Table 7 – FY 2016 Interest Earnings and Effective Rate of Return by Sub-portfolio

FY 2016		
Sub-portfolio	Interest Earnings	Effective Rate of Return
Noncurrent Operating	$6,743,258	1.35%
Current Operating	3,454,701	0.49%
Intermediate Term	2,241,096	1.13%
Debt Service Reserve	404,809	0.53%
Total	$12,843,864	0.87%

Table 8 – FY 2015 Interest Earnings and Effective Rate of Return by Sub-portfolio

FY 2015		
Sub-portfolio	Interest Earnings	Effective Rate of Return
Noncurrent Operating	$7,099,281	1.43%
Current Operating	963,650	0.16%
Intermediate Term	1,810,911	0.91%
Debt Service Reserve	143,391	0.19%
Total	$10,017,233	0.72%

The returns on the current operating and the debt service reserve sub-portfolios surged after the Fed increased the target range for the overnight lending rate to 0.25% to 0.50% from 0% to 0.25% in December 2015. The returns on the current operating and debt service reserve portfolios jumped 33 and 34 basis points, respectively. All of the investments in these two sub-portfolios had maturities of less than 13 months, where the rate hike had the biggest impact on market interest rates.

The return on the intermediate term sub-portfolio increased by 22 basis points to 1.13% as a result of the reinvestment of sale proceeds in higher yielding assets. Securities in this sub-portfolio are typically sold when they are within 13 months of maturity as part of the roll down the yield curve program. Securities purchased in Fiscal Year 2014 for this 3-year laddered portfolio were sold in 2016 as part this strategy. The higher rate of return in this sub-portfolio is attributable to higher yields on 3-year Treasury securities in 2016 relative to 2014, which more than offset lower capital gains on asset sales.

The return on the noncurrent operating portfolio declined by 8 basis points due to lower capital gains on asset sales. Securities in this sub-portfolio can also be sold when they are within 13 months of maturity. Rates in this part of the curve increased sharply in 2016, reducing capital gains. For example, the average yield on the 1-year Treasury more than doubled in 2016 to 54 basis points from 24 basis points in 2015. Nevertheless, the noncurrent operating portfolio was the best performing sub-portfolio due to the normal, or upwardly sloping, yield curve. The average yield spread of the 5-year Treasury over the 3-month Treasury was 109 basis points.

The dollar amount of earnings by itself has little meaning as a measurement of portfolio performance. A better gauge of portfolio performance is the effective rate of return, which is measured in percent and can be compared to rates in prior years and to comparable investments. For Fiscal Year 2016, the portfolio’s effective rate of return was 0.87%. In Fiscal Year 2015, the portfolio’s effective rate of return was 0.72%. Shown below in Table 9 are the effective rates of return for the permitted investment types during Fiscal Years 2016 and 2015.

Table 9 – Average Portfolio Effective Rate of Return by Investment Type

Investment Type	FY 2016	FY 2015
Treasuries	0.97%	0.84%
Florida PRIME (SBA)	0.79%	NA
Certificates of Deposit	0.65%	0.51%
Instrumentalities	0.48%	0.19%
Money Markets	0.18%	0.02%

The increased rates of return were attributable to higher market interest rates, particularly on short-term securities. Average Treasury yields increased between maturities of three months and two years. These gains more than offset the effect of lower average rates in the five-year section of the Treasury yield curve.

Investments staff is authorized to sell securities that fall within 13 months of maturity if a capital gain can be realized. The proceeds are immediately reinvested in a Treasury note at the end of the noncurrent operating sub-portfolio's 5-year ladder or the intermediate term sub-portfolio's 3-year ladder. Roll down the yield curve sales generated $590,210 in capital gains in Fiscal Year 2016, adding 4 basis points to the overall portfolio's 0.87% return.

E. Benchmark Comparisons

Portfolio performance is best measured when compared with rates of return on comparable investments. The Investment Committee has established benchmarks as a means to monitor portfolio performance. A benchmark is a passive portfolio rate of return that represents expected returns with given levels of risk. In establishing benchmarks for the portfolio, the Committee evaluated investments with maturities and credit, market and liquidity risks comparable to the permitted investments. The Committee continued using certain Treasuries, the Merrill Lynch 0-1 Year Treasury Index and the effective federal funds rate as benchmarks for Fiscal Year 2016. The Comptroller also continued to use an internally calculated benchmark named the Committee Benchmark. This customized benchmark is computed using the yields on the effective federal funds rate, the 6-month constant maturity Treasury, the 2-year constant maturity Treasury and the 3-year constant maturity Treasury. Treasuries are defined in Section V above, and the effective federal funds rate is described in Section VII above. The Merrill Lynch Index is the average yield of approximately 20 Treasuries with maturities of one year or less.

The County's portfolio outperformed all benchmarks for the ninth consecutive year. The portfolio's strong performance relative to the benchmarks was primarily attributable to the longer-term noncurrent operating and intermediate term sub-portfolios. Investment yields in the current operating sub-portfolio are more reflective of current market rates due to their short maturities. The only investment types purchased in 2016 with yields typically higher than Treasuries were Instrumentalities and certificates of deposit, which provided some yield pickup over Treasuries in the current operating sub-portfolio. In September 2016, the County invested in Florida PRIME for the first time since November 2007. This local government investment pool added to returns in the current operating sub-portfolio during the final month of the year and should boost returns going forward. The suspension of new investments in CP and BAs continued through the year.

Table 10 – Benchmark Comparisons

Benchmark	FY 2016	Variance	FY 2015	Variance
Portfolio	0.87%		0.72%	
3-Month Treasury	0.24%	0.63%	0.03%	0.69%
6-Month Treasury	0.40%	0.47%	0.11%	0.61%
ML 0-1 Year Treasury	0.45%	0.42%	0.16%	0.56%
1-Year Treasury	0.54%	0.33%	0.24%	0.48%
2-Year Treasury	0.79%	0.08%	0.61%	0.11%
Effective Fed Funds	0.32%	0.55%	0.12%	0.60%
Committee Benchmark	0.61%	0.26%	0.43%	0.29%

F. Brokers, Dealers and Direct Issuers

Management of the portfolio was also accomplished in compliance with the Policy, which requires the portfolio to be diversified by financial institution. The Policy indicates that the Comptroller shall purchase securities only from financial institutions which are qualified as public depositories by the Chief Financial Officer of the State of Florida, from primary securities dealers as designated by the Federal Reserve Bank of New York, from securities dealers certified by the County's Business Development Division as Minority/Women Business Enterprises and having offices in Florida, or from direct issuers of CP and BAs. The Policy also requires a minimum of three competitive offers.

The Comptroller records the number and amount of purchases and sales by financial institutions and dealers. Shown below in Table 11 are the primary dealers and qualified public depositories (QPD) ranked by Fiscal Year 2016 percentage of total County transactions and compared with percentage of transactions in Fiscal Year 2015.

Table 11 – QPD, Dealers and Direct Issuers

Broker/Dealer	Status	FY2016 % of Total	FY2015 % of Total
Bank of Montreal (BMO)	Primary	32.25%	40.46%
Jefferies & Company, Inc.	Primary	20.27%	17.09%
Citigroup	Primary	18.40%	0.00%
RBC Capital Markets	Primary	17.92%	4.62%
Cantor Fitzgerald & Co.	Primary	8.92%	8.06%
Wells Fargo	Primary	0.80%	-
BankUnited, NA	QPD	0.72%	0.83%
TD Bank, N.A.	QPD	0.36%	-
Harbor Community Bank	QPD	0.36%	-
Morgan Stanley	Primary	-	28.10%
American Momentum Bank	QPD	-	0.42%
Seaside National Bank & Trust	QPD	-	0.42%

X. DEPOSITORY BANKING

General banking and cash management services are provided by an Agreement for Banking Services with Wells Fargo Bank, N.A., for the period July 1, 2013 through June 30, 2016. Wells Fargo was selected as the County's banking institution in a competitive procurement process. The Agreement provides for three one-year extensions upon mutual consent of the parties. In April 2016, the County and Wells Fargo extended the agreement through June 30, 2017. If the remaining two one-year options are exercised, the agreement would run through June 30, 2019. Wells Fargo is a member of the Federal Reserve System and the National Automated Clearing House Association. Wells Fargo is also a QPD as defined by the Florida Security for Public Deposits Act.

Services provided by Wells Fargo under the Agreement include general banking, noninterest-bearing transaction accounts, retail and wholesale lockbox, and electronic funds transfers. Discussed below is a brief description of each service.

A. General Banking

General banking services include deposits, check writing, credit card processing, stop payments, return item processing, money changing, account analysis, bank statements, full check reconciliation, electronic information reporting and positive payment. Positive payment is an electronic process involving the County's checking accounts that reduces the risk of check fraud and allows unauthorized checks to be automatically returned to the payee.

B. Non-Interest Bearing Checking Accounts

Non-interest bearing checking accounts are full-service demand deposit accounts that generate interest income on available funds. The County maintains 24 accounts including collection and deposit, and disbursement accounts. Seven of the 24 accounts are checking accounts. Available balances are compensated at an earnings credit rate (ECR) of the higher of targeted federal funds less 5 basis points or 42 basis points to offset services charges; however, the County does not earn interest on balances in excess of those needed to offset service fees. The bank accounts are demand deposit accounts, not investments. Therefore, they are covered by the Federal Deposit Insurance Corporation (FDIC) up to a total of $250,000 and collateralized by the Florida Security for Public Deposits Act.

C. Lockbox

Wells Fargo provides wholesale lockbox services to the Fire Rescue Department and the Solid Waste System. Wells Fargo also provides wholetail lockbox services to the Water Utility System and the County's Red Light Running Program. A wholetail lockbox is a hybrid of a retail lockbox and a wholesale lockbox. A lockbox is a method of collecting regular, recurring payments from customers of the County. The County's lockboxes provide faster deposit of payments, reduce handling and processing time, and strengthen internal controls by separating the cash handling responsibilities from invoicing and billing responsibilities.

D. Electronic Funds Transfers (EFT)

EFT are electronic communications of financial transactions between banks and bank customers. Wells Fargo provides the County with the capability to receive and disburse funds through the Federal Reserve Wire System, immediately and overnight. Automated clearinghouse transfers (ACH) include the ability to directly draw from customer (Water Utilities) and taxpayer (Tourist Development and Public Service Tax) accounts for immediate credit to the County's accounts. ACH transfers also provide for direct deposit of employee payroll earnings for immediate credit to their accounts, and for the County's payment of various state and federal tax liabilities. The Comptroller utilizes comprehensive ACH debit blocking to prevent unauthorized disbursements.

XI. DEBT REFINANCING

According to the County's Debt Management Policy, outstanding debt will be refunded as long as the net present value savings between the refunded bonds and the refunding bonds is equal to or greater than 5% without extending the maturity of the debt being refunded, unless extenuating circumstances would justify a smaller percentage savings (e.g., historically low interest rates, etc.).

On December 10, 2015, the County issued a $30,110,000 Sales Tax Revenue Refunding Bond, Series 2015A. The County used the proceeds of the sale and other available cash to currently refund all of its outstanding Sales Tax Revenue Refunding Bonds, Series 2006. The refunded par value totaled $31,945,000. The net present value savings on the refunding was $3,825,320, or 11.97% of the refunded bonds.

On July 14, 2016, the County issued $63,025,000 of Tourist Development Tax Refunding Revenue Bonds, Series 2016. The County used the proceeds of the sale and available cash to currently refund its Tourist Development Tax Refunding Revenue Bonds, Series 2006. The refunded par value totaled $72,635,000. The net present value savings on the refunding was $17,391,145, or 23.94% of the refunded bonds.