

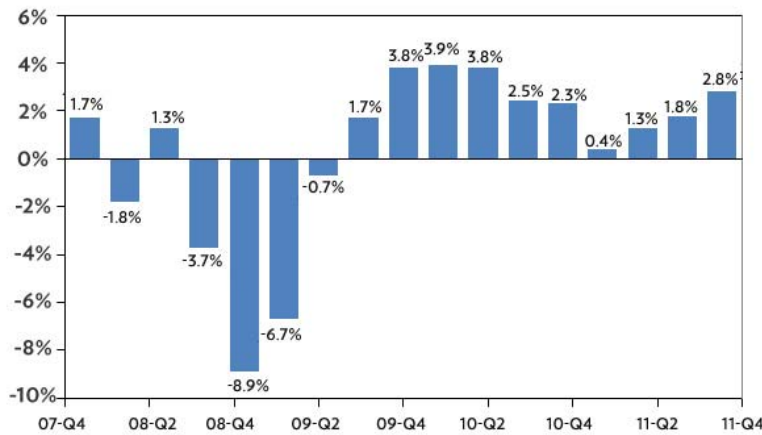


CITY OF RIO RANCHO
QUARTERLY INVESTMENT REPORT
 QUARTER ENDING DECEMBER 31, 2011

U.S. Economic Commentary

This quarter showed somewhat mixed results on the economic front. Real Gross Domestic Product increased at an annual rate of 2.8 percent (according to the advance estimate), short of the three percent expected. This brings the full year growth estimate for 2011 to 1.7 percent, down from three percent in 2010. Positive contributions to GDP growth in the fourth quarter included consumer spending and fixed investment. Overall government purchases fell, with substantial declines in Federal defense spending and State and local spending. Sales from Black Friday were 20 percent higher than a year ago, and sales for “Green Monday” (Internet sales) set a new record. Data on consumer confidence also showed an improvement, which was attributed partly to declining prices for gasoline at the pump.

REAL GDP
 Percentage Change From Preceding Quarter



WHITEHOUSE.GOV

On the employment side, nonfarm payroll grew over 300,000 over the quarter, bringing the U.S. unemployment rate down slightly from 9.1 percent to 8.6 percent. However, some of the decline in the rate was attributed to a shrinking active labor force, according to the Bureau of Labor Statistics.

The European debt crisis came to a boil during this quarter, causing turbulence in global financial markets early in the quarter, and prompting European sovereign debt yields to spike. Actions in December by the Euro zone countries to impose sanctions against any member nation whose annual

budget had a deficit of more than three percent and to impose a series of taxes on financial transactions to assist with paying off sovereign debt helped calm things. However, most believe that the types of actions necessary for long-term reform will take years to implement.

Outlook for U.S. Monetary Policy

The Federal Reserve maintained their “extremely low” interest rate stance, citing concerns that “contagion slowdown” stemming from growing weakness in Europe could cause the U.S. economy to slow from its current pace. They expect to keep rates “exceptionally low” until the middle of 2013 and some analysts are forecasting no change in this policy until 2014. Over the period, short-term Treasury rates ended the quarter at -0.02 percent for the 3-month Treasury bill, 0.10 percent on the 12-month Treasury bill, and 0.27 percent on the 2-year Treasury note.

Investment Strategy

Investment opportunities over the quarter continued to be very limited. The use of a checking account at Wells Fargo (the City’s primary depository) continued to provide the City an earnings credit rate (ECR) equivalent to 75 basis points, which was used to offset the City’s banking and merchant services fees (credit card fees). Over the quarter, the City’s continued use of “step-up” agency notes for debt reserve funds provided a method to achieve some higher levels of income over other short term rates while still providing a measure of liquidity. These notes, with interest rates higher than money market funds to the first call have continued to be called. Lastly, the City remains committed to placing funds in FDIC insured certificates of deposit issued by local banks. Rates offered by some regional banks were a further improvement over levels paid by fully liquids accounts.

Looking ahead to the next quarter, the City has begun analyzing liquidity needs on an investment-pool basis, using an Operating Fund Pool, a Capital Project Fund Pool, and a Debt Service Fund Pool. Once a liquidity portion and a core investment portion have been established, the city will look for ways to pick up yield by extending farther out the yield curve. Based on the notification from the City’s Fiscal Agent that the earnings credit rate will be lowered to 50 basis points starting in January of 2012, finding higher yielding investments may become more likely. The City will seek opportunities to increase yields by utilizing U.S. Agency securities, Certificates of Deposit, and high quality bonds of New Mexico public entities. That said, based on current rates, these opportunities remain limited, and we do not want to invest all of our investable cash too far out the curve, since these rates are so low. However, placing a portion of the core funds in longer-term 1 to 3-year investments makes sense, in light of the expectation for rates to remain low at least until mid-2013.

Portfolio Performance

The City’s investment portfolio book value balance on December 31, 2011 was \$60,457,598. There was one marketable U.S. Agency security in the portfolio, making up 10.3 percent of total holdings, a Certificate of Deposit with a certified New Mexico banking institution made up 5.8 percent and 81 percent of the portfolio was held in the Wells Fargo checking account. The average yield on the portfolio (including the earnings credit rate) for the period was 0.48 percent compared to the benchmark (365 day US Treasury bill) which was 0.1 percent. The portfolio earned \$9,138.28 in interest plus \$60,108.74 in earnings allowance over the period.

Investment Portfolio Summary, Quarter Ending December 31, 2011					
		GF Portion	% of Total	Policy Max	Interest Rate
Wells Fargo Checking	\$49,127,878	\$5,623,266	81.3%	N/A	0.75%
Savings	\$1,601	\$1,601	0.0%	N/A	0.22%
LGIP	\$104,105	\$0	0.2%	75%	0.23%
Agency Discount Notes	\$6,220,000	\$0	10.3%	50%	0.88%
New Mexico Bank and Trust CD	\$3,500,000	\$800,000	5.8%	40%	0.55%
Bank of New York Mellon (NMFA Reserves)	\$1,504,014		2.5%	N/A	
Total Portfolio	\$60,457,598	\$6,424,867	100.0%		

*Note: Earnings Credit Rate (ECR) provided by Wells Fargo that can only be used to offset banking charges.