

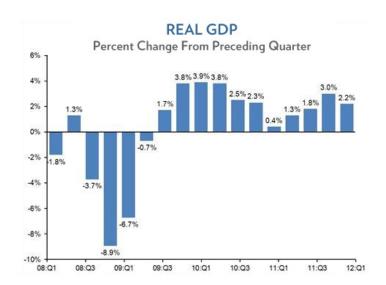
CITY OF RIO RANCHO QUARTERLY INVESTMENT REPORT

QUARTER ENDING MARCH 31, 2012

U.S. Economic Commentary

Most economic data releases over the quarter, including data on consumption and employment, continued to show signs of economic recovery. However, Federal Reserve officials caution of two headwinds to continued economic growth, financial troubles in Europe and elevated energy costs.

According to the advance estimate of first quarter GDP data, the U.S. economy grew at 2.2 percent, its 11th straight quarter of positive growth. The increase in GDP in the first quarter primarily reflected positive contributions from personal consumption expenditures, exports, private inventory investment, and residential fixed investment, indicating a continued recovery in the private sector. Offsetting some of these gains were negative contributions from federal government spending, nonresidential fixed investment, and state and local government spending. Imports also increased, which is a negative contribution to GDP.



Consistent but slow growth was reported in U.S. personal income and an increasing growth rate was seen in personal consumption expenditures for the first three months of the year. Personal income increased 0.3 percent in both January and February and 0.4 percent in March, while personal consumption expenditures increased 0.5 percent, 0.9, and 0.3 percent in those same months.

Over the quarter, 590,000 jobs were created, compared to 300,000 that were added over the last quarter, with large employment gains in professional and business services, "leisure and hospitality", manufacturing, "health care and social assistance", and mining. Government employment levels changed little over the quarter, and employment decreased in retail trade. After declining four consecutive months, the unemployment rate stayed at 8.3 percent over the quarter, which is partly attributed to a shrinking active labor force, according to the Bureau of Labor Statistics.

Energy prices remained elevated over the quarter, supported by geo-political risks surrounding the Iranian threat to close the Straits of Hormuz to tanker traffic. Prices started the quarter at \$102 per barrel, fell to \$98 and rose as high as \$110 by the end of February. Supply factors and mild weather brought prices down a bit, ending the quarter at \$103 per barrel. According to market analysts, speculative and commercial buyers remain very active in the market.

Over the quarter, the European debt crisis continued to impact financial markets and raise concerns over the impact on U.S. economic growth. Early in the quarter the credit agencies announced that credit downgrades for almost all European sovereign debt except Germany were imminent. The Greek Parliament passed an austerity budget, which was key to the ECB releasing the next tranche of funds, but reportedly led to tens of thousands of protestors in the streets. Negotiations between the Greek government and bond holders to write down debt took longer than expected, but ultimately resulted in the Greek government reaching an agreement to pay around 25 cents on the dollar to most bondholders.

Outlook for U.S. Monetary Policy

In January, the Federal Reserve announced that it intends to keep the Fed Funds target rate at its current level until late 2014, an extension of their previous targeted date of mid-2013. The Federal Reserve acknowledged improvements in the U.S. economy, but noted two headwinds, financial troubles in Europe and energy costs. Over the quarter, yields on 3-month Treasury notes ranged from 1 to 10 basis points, ending the quarter at 7 basis points. Yield on the 12-month bill ranged from 11 to 19 basis points, and ended at 17 basis points. Yields on the 2-year note ranged from 21 to 36 basis points, ending the quarter at 33 basis points.

Investment Strategy

Pursuant to the Investment Policy, the City's investment strategy is driven by the three investment goals: safety, liquidity, and yield, in that order. The City Charter and the Investment Policy establish restrictions that ensure the City utilizes only the highest quality, most liquid investments.

In that vein, the City's investment strategy begins with an analysis of the anticipated liquidity or cash needs over the next three years. Based on historic cash balances for each major type of fund, cash balances are divided into liquidity and core investment portfolios. The liquidity portfolio is the portion of the city's cash that should remain in highly liquid accounts as most of those funds will likely be needed for outgoing payments in the coming months.

Once the core portfolio amount is established, the city seeks investment opportunities in allowable securities through a competitive process whereby quotes are requested by approved broker dealers at the same time (for secondary market purchases). If the yield on these securities adequately compensates the City to invest in longer-dated securities, the City will place funds. However, over the last few years, investment opportunities have been extremely limited due to the historically low interest

rates. Additionally, due to a relatively attractive earnings credit rate ("ECR") and savings account rate provided by Wells Fargo (the City's primary depository) of 50 and 26 basis points, respectively, the City has maintained relatively high balances in those accounts. The ECR can be directly used to offset the City's banking and merchant services fees (credit card fees), which would otherwise be paid with hard dollars funds.

As of March 31, the City has approximately 77.5 percent of its total cash and investments in liquid accounts, including checking, savings, and the New Mexico Local Government Investment Pool. The City has 22.5 percent invested in securities and time deposits, including U.S. Agencies, New Mexico Bank & Trust FDIC Insured Certificates of Deposit, and New Mexico Municipal Bonds.

Over the coming quarter, the City will continue to seek opportunities to increase yields by investing in allowable investments and those providing relative value. That said, based on current rates, these opportunities remain limited, and staff remains cautious about investing a significant portion of the core portfolio too far out the maturity curve, since these rates remain at historically low levels.

Portfolio Holdings and Performance

The City's investment portfolio book value balance on March 31, 2012 was \$57,138,423. There was one U.S. Agency security in the portfolio, making up 10.9 percent of total holdings, a Certificate of Deposit with a certified New Mexico banking institution making up 6.1 percent and a municipal bond making up 2.9 percent. 77.3 percent of the portfolio was held in the Wells Fargo checking or savings account. The weighted average yield on the portfolio (including the earnings credit rate) for the period was 0.49 percent compared to the benchmark (365 day US Treasury bill) which was 0.17 percent. The portfolio earned \$9,609.86 in interest plus \$53,436.26 in earnings credit over the period.

Investment Portfolio Summary, Quarter Ending March 31, 2012					
		GF Portion	% of Total	Policy Max	Interest Rate
Wells Fargo Checking	\$33,462,466	\$2,447,163	58.6%	N/A	0.50%
Savings	\$10,702,825	\$3,564,765	18.7%	N/A	0.26%
LGIP	\$104,118	\$32,179	0.2%	75.0%	0.24%
Bank of New York Mellon	\$1,504,014		2.6%	N/A	
U.S. Agency Note	\$6,220,000		10.9%	50.0%	0.88%
NM Bank & Trust CD	\$3,500,000	\$800,000	6.1%	40.0%	0.55%
Municipal Bonds	\$1,645,000	\$632,598	2.9%	15.0%	0.62%
Total Portfolio	\$57,138,423	\$7,476,705	100.0%		