

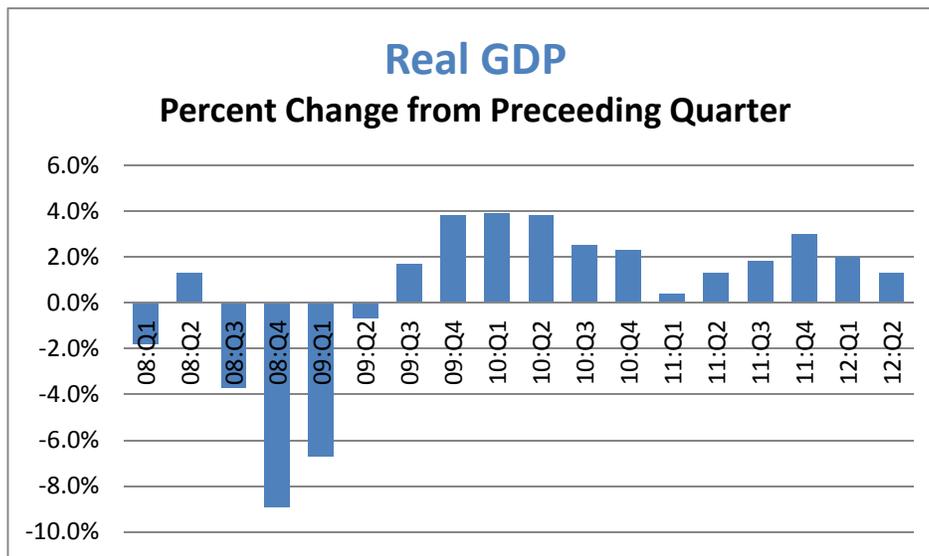


CITY OF RIO RANCHO
QUARTERLY INVESTMENT REPORT
 QUARTER ENDING SEPTEMBER 30, 2012

U.S. Economic Commentary

The U.S. economy is continuing to struggle through a soft recovery. While the U.S. housing recovery seemed to be building momentum, overall economic activity, including manufacturing and job growth have continued to show persistent weakness. Additionally, uncertainties about the U.S. election, the looming “fiscal cliff”¹, coupled with Europe’s slowdown and now a sharp decline in economic activity in China have left a cloud hovering over the outlook for the U.S. national economy.

U.S. Gross Domestic Product (GDP) increased at an annual rate of 1.3 percent in the second quarter of 2012, according to the Bureau of Economic Analysis, down from 2.0 percent in the first quarter. The increase in GDP primarily reflected positive contributions from personal consumption expenditures, exports, nonresidential fixed investment, and residential fixed investment that were partly offset by negative contributions from private inventory investment and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased. According to a quarterly survey by the National Association of Business Economists, U.S. GDP will rise a mere 1.9 percent for all of 2012.



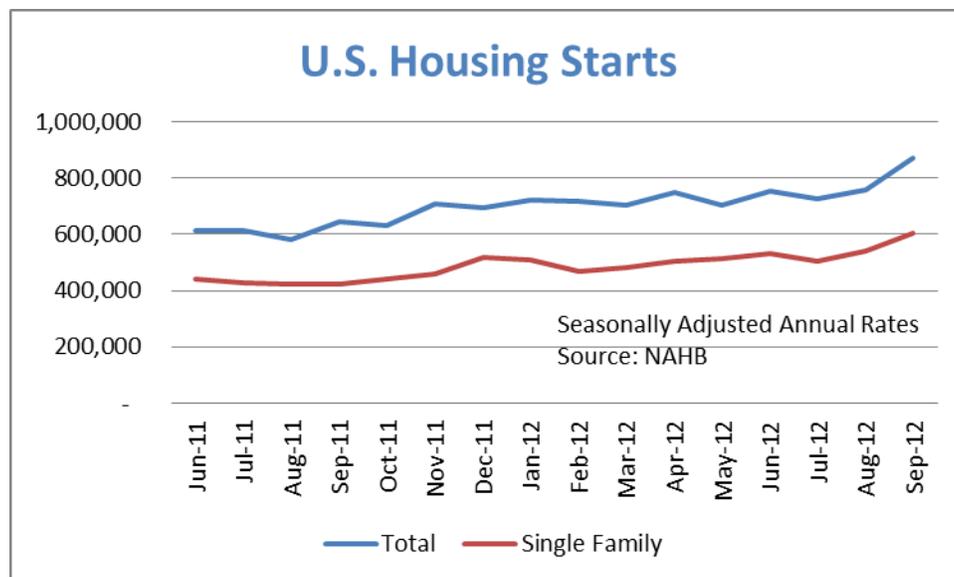
¹The "fiscal cliff" is a term used to describe a combination of expiring tax cuts (such as the Bush tax cuts and social security payroll tax cuts) along with mandatory spending cuts (the budget sequestration agreed to as part of the debt ceiling limit increases) that, without action by the Congress and the President, are scheduled to take effect in late 2012 and early 2013. There is concern among economists that this combination of higher taxes and significant cuts in federal spending in what remains a fragile economic recovery could lead to a double dip recession.

Labor Markets

The U.S. unemployment rate fell to 7.8 percent in September from 8.2 percent in June and the economy added 437,000 jobs during the quarter, up from 264,000 in the previous quarter. During the quarter, employment rose in food services and drinking places, in professional and technical services, and in health care, transportation and warehousing but changed little in most other major industries. The U.S. Bureau of Labor Statistics cautioned that the improvement in the unemployment rate is partially due to people dropping out of the workforce, more so than the number of people getting jobs. Additionally, the long term unemployed (those jobless for 27 weeks or more) was little changed at 4.8 million and accounted for 40.1 percent of the unemployed.

Housing

U.S. housing starts continued to grow over the quarter, with total housing starts growing from an annualized rate of 754,000 at the end of the previous quarter to 872,000 in September. Single family housing starts grew from an annualized rate of 531,000 in June to 603,000 in September. The National Association of Homebuilders forecasts total housing starts to increase 20 and 26 percent in 2012 and 2013, respectively. The year over year percent change in prices of existing homes increased for the seventh consecutive month, rising to 11.4 percent in September of 2012.



European Fiscal Crisis

The European situation was calmed as the German high court ruled the current financial aid plans to the ECB constitutional. The question remains as to how much the German people are willing to give up to save the ECB. Additionally, ECB Chief Mario Draghi announced a new liquidity plan to stabilize fears about further European sovereign defaults. The ECB will begin to buy its member's sovereign debt out to three years thus reducing the cost to borrow. The announcement did not indicate how much and for how long. Over the quarter, the new Greek Prime Minister reported that he was "ready to begin working on deficit reductions measures" with his Parliament. The new Spanish government leaders are proposing economic proposals, including everything from new taxes, fewer services and raising the

national retirement age. Spain reported that national unemployment had reached just under 25 percent, the highest number on record since they became a democracy.

Outlook for U.S. Monetary Policy

As anticipated, the Federal Reserve announced that it will keep short-term rates at extremely low levels through mid-2015, and initiated a new round of “quantitative easing” or QE3, a new program where the Federal Reserve will purchase \$40 billion in mortgage backed securities each month on an open ended basis in an effort to further drive down interest rates. By lowering borrowing costs, and spurring banks to lend, the Fed hopes to induce more spending and eventually set the stage for more hiring. The Fed tied its bond purchase program to jobs, saying it will keep buying bonds until it sees substantial improvement in the labor market. Over the quarter, interest rates remained low. Yields on 3-month Treasury notes ranged from 7 to 10 basis points, ending the quarter at 9 basis points. Yields on the 12-month bill ranged from 16 to 18 basis points, and ended at 16 basis points. Yields on the 2-year note ranged from 24 to 27 basis points, ending the quarter at 25 basis points.

Investment Strategy

Over the quarter, the strategy of the investment portfolio was to remain diversified in demand deposits, U.S. agency securities, and municipal bonds. 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 25 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. During the quarter, a CD matured for \$3.5 million and a municipal bond matured for \$700,000 in August. These funds were deposited into the savings account in anticipation of a new investment advisor being on board and assisting with the City’s investment strategy going forward.

During the quarter, the City issued an RFP and selected Public Financial Management (PFM) as the City’s new investment advisor. Staff will work with PFM on building on the City’s investment program and obtain assistance with analyzing the economy and financial markets, performing relative value analysis, analyzing cash flow and liquidity needs in order to further the goals of safety, liquidity and returns.

Portfolio Holdings and Performance

The City’s investment portfolio book value balance on September 30, 2012 was \$51,319,599. There was one U.S. Agency security in the portfolio, making up 12.1 percent of total holdings and a municipal bond making up 1.8 percent. 83.1 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 0.52 percent compared to the benchmark 365-day US Treasury bill, which ended the quarter at 0.16 percent. The portfolio earned \$5,061 in interest plus \$42,848 in earnings credit over the quarter.

Investment Portfolio Summary, Quarter Ending September 30, 2012					
		GF Portion	% of Total	Policy Max	Interest Rate
Wells Fargo Checking	\$32,027,527	\$81,560	62.4%	N/A	0.500%
Savings	\$10,611,991	\$5,730,253	20.7%	N/A	0.250%
LGIP	\$11,066	\$5,390	0.0%	75%	0.000%
Bank of New York Mellon	\$1,504,014		2.9%	N/A	0.000%
U.S. Agency Note	\$6,220,000	\$0	12.1%	50%	0.875%
Municipal Bonds	\$945,000	\$358,765	1.8%	15%	0.700%
Total Portfolio	\$51,319,599	\$6,175,968	100.0%		