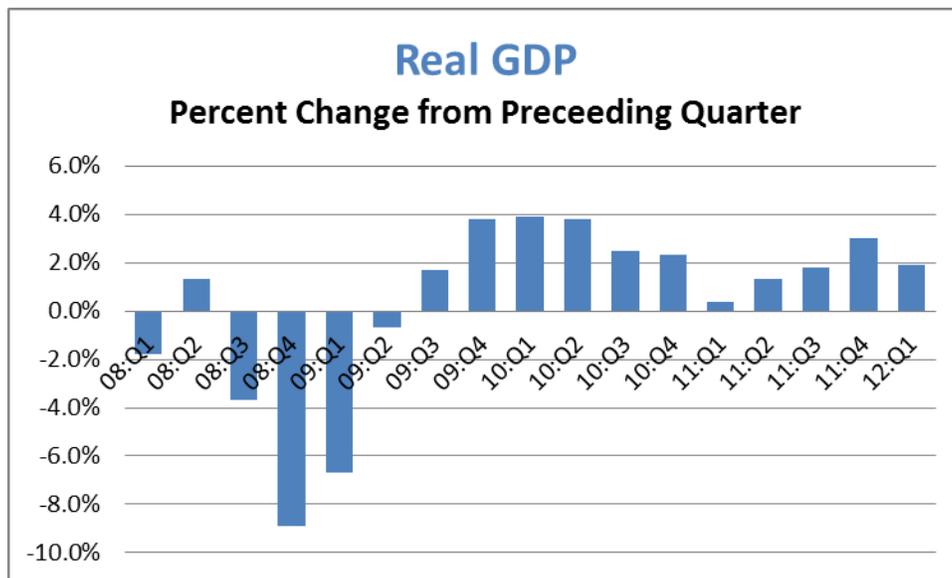




CITY OF RIO RANCHO
QUARTERLY INVESTMENT REPORT
 QUARTER ENDING JUNE 30, 2012

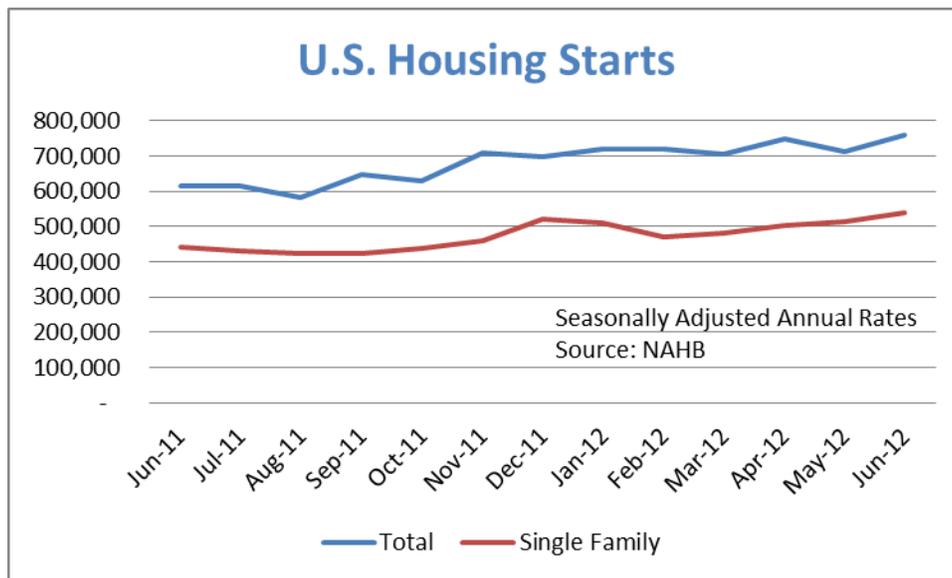
U.S. Economic Commentary

Key economic data releases over the quarter, primarily disappointing employment data, showed signs of slowing economic growth in the U.S. and abroad. According to the most recent estimate, gross domestic product (GDP) increased at an annual rate of 1.9 percent in the first quarter of 2012, which was revised lower from initial forecasts. The increase in GDP in the first quarter reflected positive contributions from personal consumption expenditures, exports, residential fixed investment, nonresidential fixed investment, and private inventory investment that were partly offset by negative contributions from federal, state, and local government spending. Imports, which are a subtraction in the calculation of GDP, increased. The outlook for annual growth is now 1.9 percent.



U.S. Housing starts generally grew over the quarter, with total starts growing from an annualized rate of 706,000 in March to 760,000 in June. Single family starts grew from an annualized rate of 481,000 in March to 539,000 in June. The National Association of Homebuilders forecasts total housing starts to

increase 21 and 22 percent in 2012 and 2013, respectively. Housing prices remain static and the pace of sales has not seen any increase except in a few states like Texas who have fairly significant growth while states like California and Nevada remain in decline.



Over the quarter, 264,000 jobs were added to nonfarm payroll in the U.S. This is significantly less than what was added in the previous quarter (590,000) and less than the 465,000 consensus expectation. U.S. payrolls added a disappointing 115,000 jobs in April, added only 69,000 jobs in May and edged up only slightly in June by 80,000. According to the U.S. Bureau of Labor Statistics, employment growth was seen in professional and business services, retail trade, health care, transportation and warehousing, and wholesale trade but declined in construction and government. The U.S. unemployment rate inched down from 8.3 percent to 8.2 percent over the quarter.

The Conference Board Consumer Confidence Index showed consumer confidence declining for the fourth consecutive month, falling to 68.7 in April, 64.4 in May, and 62 in June. According to the latest report, consumers were somewhat more positive about current conditions, but slightly more pessimistic about the short-term outlook. Energy prices fell by the end of the quarter, with gas prices approaching \$3 in many parts of the country -- the only apparent silver lining for consumers.

European financial woes continued to garner significant attention in global financial markets. Spain has moved into the spotlight as the next European economy that needs major assistance. Some calculations show overall unemployment in Spain may be 20 percent, which is pushing economic activity projections sharply lower. The rise in yields for Spanish sovereign debt adds to their problems as the cost of debt service is rising almost daily. Spanish sovereign debt has been downgraded to marginal investment grade. The structural problems within their economy are offering no simple solutions and the national government may well need an inflow to avoid a default on their debt like we saw occur in Greece.

Outlook for U.S. Monetary Policy

Early in the quarter, the FOMC minutes appeared to signal that the monetary expansion policy known as QE3 was off the table. However, in late June, the U.S. FOMC lowered its near term growth and employment projections for the U.S. and announced that Operation Twist will be extended through the end of 2012. In their statement, the Fed noted its deep concern about the declining pace of hiring.

Over the quarter, the yield on 3-month Treasury notes ranged from 7 to 8 basis points, ending at 8 basis points. The yield on the 12-month bill ranged from 16 to 20 basis points, and ended at 20 basis points and the yield on the 2-year note ranged from 25 to 34 basis points, ending at 30 basis points.

Investment Strategy

Over the quarter, the strategy of the investment portfolio was to remain diversified in demand deposits, certificates of 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 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 June 30, the City has approximately 74 percent of its total cash and investments in liquid accounts, including checking, and savings accounts. The City has approximately 26 percent invested in securities and time deposits, including U.S. Agencies, New Mexico Bank & Trust FDIC Insured Certificates of Deposit, and municipal bonds.

In the coming quarter, the City will select an investment advisor and work with the investment advisor on analyzing financial markets, performing relative value analysis to continue to allow the City to maximize yields in this low-interest rate environment, while meeting the investment objectives of safety, liquidity and yield.

Portfolio Holdings and Performance

The City’s investment portfolio book value balance on June 30, 2012 was \$49,208,316, which is about 5.9 percent lower or \$3 million lower compared to the total balance one year ago. The most significant changes in balances reflect expenditures in the Utility and Governmental Capital funds. Water rights acquisitions continue to draw down balances in Utility Fund 542, as well as expenditures in other utility capital funds. The General Fund balance is \$1.8 million, or 21 percent higher compared to a year ago, consistent with a Beginning Fund Balance that is much higher than last year as well as strong GRT revenues compared to last year.

The weighted average yield on the portfolio (including the earnings credit rate) for the period was 0.52 percent compared to the benchmark (1-year U.S. Treasury bill) which was 0.20 percent. The portfolio earned \$36,139 in interest plus \$42,625.02 in earnings credit over the period. However, as described below, on June 30, 2012, the City was notified by the State Treasurer’s Office recommending a write down of an investment loss that occurred in September of 2008 in the amount of \$54,996.

Investment Portfolio Summary, Quarter Ending June 30, 2012					
		GF Portion	% of Total	Policy Max	Interest Rate
Wells Fargo Checking	\$33,321,337	\$8,915,130	67.7%	N/A	0.5000%
Savings	\$3,006,899	\$127,734	6.1%	N/A	0.2600%
LGIP	\$11,066	\$5,390	0.0%	75%	0.1828%
Bank of New York Mellon	\$1,504,014		3.1%	N/A	
U.S. Agency Note	\$6,220,000	\$0	12.6%	50%	0.8750%
NM Bank & Trust CD	\$3,500,000	\$800,000	7.1%	40%	0.5500%
Municipal Bonds	\$1,645,000	\$624,518	3.3%	15%	0.6154%
Total Portfolio	\$49,208,316	\$10,472,772	100.0%		

Local Government Investment Pool Contingency Reserve Update

On January 9, 2009, the City was notified by the New Mexico State Treasurer's Office (STO) that the Reserve Primary Fund (the nation's oldest and widely considered one of the most conservative "AAA" rated funds), was downgraded from "AAA" to "D" caused by the market turmoil during that period and the bankruptcy filing of Lehman Brothers. The New Mexico Local Government Investment Pool (LGIP) investment in the Primary Fund was frozen by the Fund as the result of a drop of the net asset value below \$1.00. The LGIP investment in this fund was then isolated and placed in the Reserve Contingency Fund (RCF), a Fund created by the Treasurer to hold these nonperforming assets until the Primary Fund's liquidation process could occur. At that time, the City of Rio Rancho had over \$540,000 with the New Mexico LGIP that was impacted by this investment. During the liquidation process over the last few years, approximately \$0.8777 (87 percent) of the total City holdings has been returned. According to the Trustee for the Primary Fund, it is not known at this time whether there will be any further distributions from the Primary Fund.

On June 30, 2012, the LGIP participants were notified by the State Treasurer's Office that based on the recommendation by their auditor, that approximately 83 percent of the remaining amount held in the Reserve Contingency Fund was being recognized as a loss and reduced as of June 30. For the City, this translates to \$54,996 reduction in value, \$26,789 of which is held by the General Fund. As the letter recommended, the City has consulted with the City auditor on the appropriate accounting treatment and disclosure of the reduced value of this investment. The changes in values are reflected in the June 30 investment holdings. The remaining \$11,066 will be held in the RCF until the State Treasurer's Office finalizes its audit and recommends final action regarding the remaining funds. See letter attached.



STATE OF NEW MEXICO
OFFICE OF THE TREASURER

June 30, 2012

Dear Reserve Contingency Fund Participant:

You are receiving this letter because you have an account in the Reserve Contingency Fund. It describes recent action taken by the State Treasurer's Office related to that fund.

As you are aware, in September 2008, the LGIP's investment in the Reserve Primary Fund (the "Primary Fund") was frozen by the Primary Fund as the result of a drop of its net asset value below \$1.00. In 2009, the Reserve Contingency Fund (the "RCF") was established to hold this non-performing asset. Your portion of the LGIP's investment in the Primary Fund was transferred to the RCF at that time. As the State Treasurer's Office has received disbursements from the Primary Fund, your RCF balance has been reduced by your pro-rata share of each disbursement, and your LGIP balance has been increased by that amount.

During the liquidation process, approximately \$0.9904 has been returned to the State Treasurer's Office for each dollar invested in the Primary Fund as of September 16, 2008. According to the Trustee for the Primary Fund, it is not known at this time whether there will be any further distributions from the Primary Fund. The Trustee's statement is enclosed for your information.

Based on the information available to the State Treasurer's Office and the recommendation of our auditors, your June 30, 2012 RCF statements reflect the recognition of the pro-rata loss from the Reserve Fund of \$4,020,224.12. This will leave a remaining total RCF balance of \$749,573.66, which represents the RCF's proportional share of the cash remaining in the Primary Fund. As a result of this action, your RCF balance has been reduced proportionately, with no corresponding increase in your LGIP portfolio. As we receive additional information from the Primary Fund Trustee, we may recognize additional losses in the remaining balances in the RCF. We will inform you in a timely manner of any such actions.

We recommend that you consult with your accountant or auditor regarding the treatment and disclosure of the value of your investment in the Reserve Contingency Fund as of June 30, 2012.

You should also be aware that the State Treasurer's Office recently engaged CliftonLarsonAllen LLP (formerly Clifton Gunderson) to perform agreed upon procedures related to these actions and with respect to the LGIP's position in the Reserve Primary Fund, including the creation of the RCF. This review is currently in process and the report is forthcoming.

Please contact Hannah Chavez at 505-955-1154 and we will answer any questions you may have.

Sincerely,


Linda T. Montoya Roseborough
Chief Investment Officer

Hannah Chavez
LGIP Accountant
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