City of Lacey, Washington
Lacey City Council Worksession Agenda

Refer to the bottom of the agenda for meeting information.

Tuesday, August 13, 2024	6:00 PM	Council Chambers and Online

1. **Call to Order**
2. **Roll Call**
3. **Land Acknowledgement**
   We, the City of Lacey, are on the ancestral land of the Tribal People of the Treaty of Medicine Creek, including the Nisqually Indian Tribe and Squaxin Island Tribe. We acknowledge, and remember those Tribal People not recognized today who were absorbed or relocated into other tribes for survival. We recognize the ancestors and their descendants who are still here. We recognize and respect the Tribal People of the Treaty of Medicine Creek as the traditional stewards of this land since time immemorial and their role today in taking care of these lands in perpetuity. We recognize and have the responsibility to call attention to the histories of dispossession, forced removal, and abridged treaty rights that allowed our nation, state, and city to develop as they have today. We recommend that community members read the Medicine Creek Treaty of 1854.
4. **Approval of the Agenda**
5. **Agenda Items**
   A. **Port of Olympia Update**
   Alex Smith, Executive Director for the Port of Olympia
   B. **Transportation Benefit District Annual Report**
   Scott Egger, Director of Public Works
   C. **Second Quarter 2024 Investment Report**
   Troy Woo, Finance Director
   D. **2024 Mid-Year Financial Report**
   Troy Woo, Finance Director
6. **Adjourn**

Meeting Information:

Attendance (Remote or In-Person)
The public may attend the meeting in-person, or you may view or listen to the meeting using one of the following platforms:

In-Person:	Council Chambers at Lacey City Hall 420 College Street SE, Lacey, WA 98503
Zoom:	https://us02web.zoom.us/j/82220291553
Website:	https://cityoflacey.org/government/public-meetings/
Facebook:	https://www.facebook.com/cityoflacey
YouTube:	https://www.youtube.com/watch?v=PXSXXO0t9J8
Phone:	(888) 788-0099 or (877) 853-5247 (Webinar ID 822 2029 1553)

Verbal Public Comment
Verbal public comment is not scheduled for Worksessions. Verbal public comment may be provided at Regular City Council Meetings. Regular Council Meetings are held the first and third Thursdays of the month.

Written Public Comment
Public comments may be submitted for Worksessions by email to PublicComment@cityoflacey.org. The commenting period will close two hours before meeting time. Written comments will be provided to the City Council electronically prior to the Worksession meeting. Comments will not be addressed during the Worksession meeting; however, comments received will be added to the official record.

CITY OF LACEY
Shaping our community together

LACEY CITY COUNCIL WORKSESSION
August 13, 2024

SUBJECT:	**Transportation Benefit District – 2023 Annual Report**

RECOMMENDATION:	**Motion to approve the "City of Lacey Transportation Benefit District 2023 Annual Report."**

STAFF CONTACT:	Rick Walk, City Manager RW Scott Egger, P.E., Director of Public Works SE Aubrey Collier, P.E., S.E., City Engineer AC Martin Hoppe, P.E., Transportation Manager MH Brian Petrin, Civil Engineer BP
ORIGINATED BY:	Public Works Department
ATTACHMENTS:	1. City of Lacey Transportation Benefit District – 2023 Annual Report
FISCAL NOTE:	Transportation Benefit District are restricted funds. 2023 revenues totaled \$4,136,865. 2023 Expenditures totaled \$6,974,589. Fund balance total is \$2,979,064
WORK PLAN GOAL	Quality Transportation & Infrastructure
PRIOR REVIEW:	N/A

BACKGROUND:

The Lacey Transportation Benefit District is a quasi-municipal taxing authority authorized under RCW 36.73 and RCW 35.21.225 for the purposes of funding transportation improvements. Transportation improvements, defined in RCW 36.73, include projects identified in the City's Transportation Plan and more importantly, the operation, preservation and maintenance of transportation facilities or programs.

On January 28, 2016, the Lacey City Council adopted Ordinance No. 1485 creating the City of Lacey Transportation Benefit District (Lacey TBD). The Lacey TBD boundary was established as the same boundary as the City's jurisdictional boundary. On February 11, 2016 the Lacey City Council also adopted Ordinance No. 1486 which transferred the rights, powers, functions, and obligations of the Transportation Benefit District to the City of Lacey and Lacey City Council allowing the City Council to assume the role as the TBD Governing Board, in accordance with RCW 36.73. The responsibility of the Governing Board is to oversee the activities, expenditures, and revenues related to TBD activities. RCW 37.73.020 states "Transportation Improvements shall be administered and maintained as other public streets, roads, highways, and transportation improvements."

On September 8, 2016, the City Council adopted Resolution No. 1043 authorizing a ballot measure to be placed before the voters on February 14, 2017. The purpose was to ask the voters to approve a sales tax in the amount of 0.2% for a period of ten years to fund the following transportation improvements specified in the ballot language:

> "Pavement Management Program to provide for pavement maintenance and preservation to improve the condition and extend the life cycle of the City street system through the use of structural rehabilitation, pavement repair, patching, asphalt resurfacing, slurry seal, and other restoration and resurfacing methods and shall include pedestrian improvements to provide for repair of City sidewalks and curb ramp repairs or replacements completed in conjunction with the Pavement Management Program."

On February 14, 2017, Lacey voters approved the 0.2% sales tax increase proposed by the City's Transportation Benefit District (TBD). The tax increase came into effect in July 2017.

Since the 2018, the Lacey TBD has collected on average $3.44M per year. Since 2017, the Lacey TBD completed $20.30 Million in reconstruction, pavement overlay, sidewalk repair, slurry seal and crack seal projects associated with the City's pavement management and preservation program. To date, 61.04 lane miles of the City's street system has been rehabilitated, repaired and maintained, meeting the intent of the 2017 voter approved ballot measure.

An annual function of the Lacey TBD is to issue an annual report in accordance with RCW 36.73.160(2). The annual report is to document the status of transportation improvement costs, expenditures, revenues, and construction schedules to the public and to newspapers of record within the district.

The City of Lacey Transportation Benefit District 2023 Annual Report (attached) is submitted to the City Council for review and approval. The Annual Report provides a summary of the TBD revenues, expenditures and scheduled projects between the time period of January 1st and December 31st of 2023.

At the Council Worksession on August 13, 2024, staff will brief the City Council on the Lacey TBD 2023 Annual report and respond to questions. Staff recommends the City Council approve the annual report. After approval, the annual report will be issued to the public and newspaper.

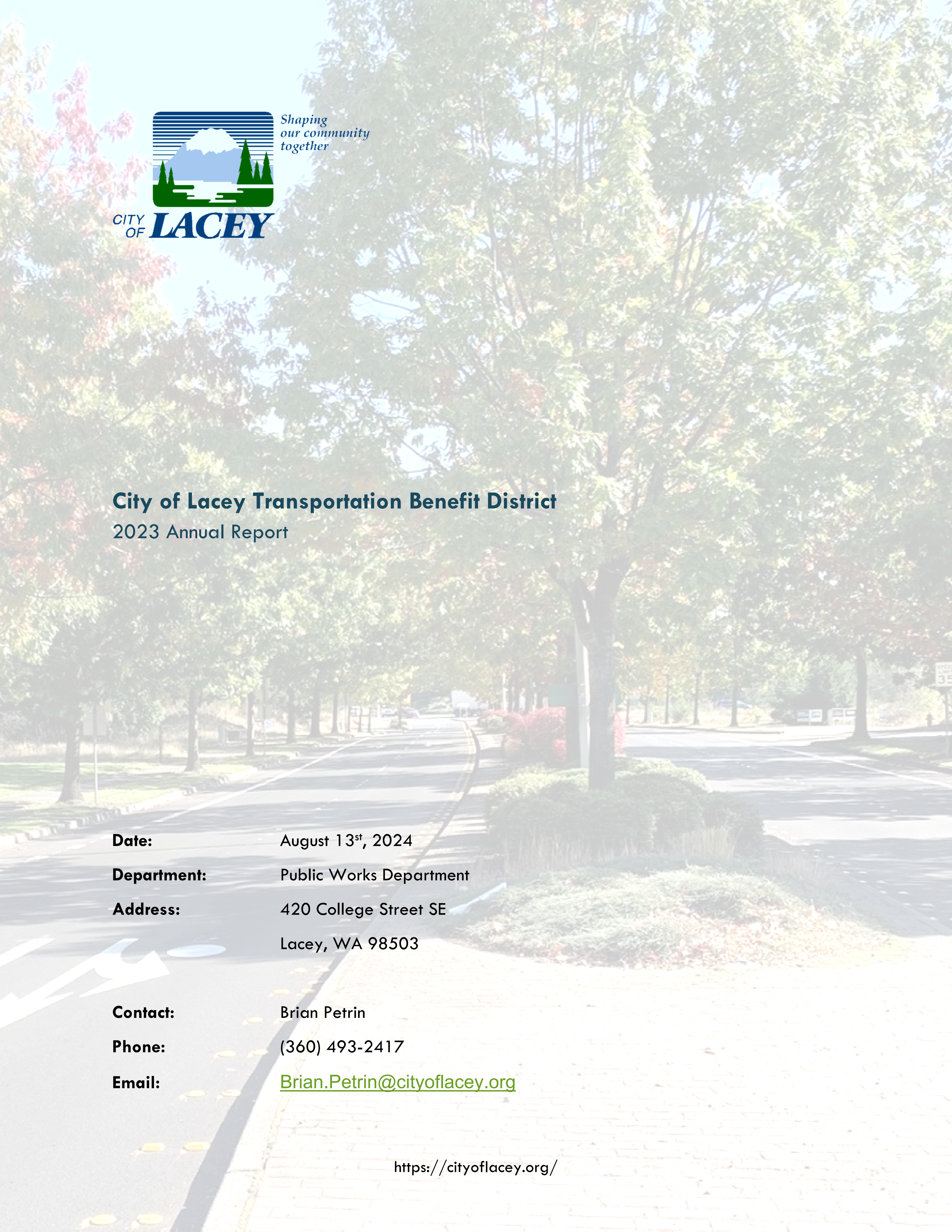
In addition, staff will brief the council on the pavement management and preservation program projects anticipated for 2025. The 2025 projects for the Lacey TBD will be approved through the 2025 budget process.

Next Steps. Upon review, the City Council could consider one of the following options. Staff recommends Option:

Option 1: Approve the 2023 City of Lacey Transportation Benefit 2023 Annual Report

Option 2: Do not approve the 2023 City of Lacey Transportation Benefit District 2023 Annual report and direct staff to make any specific revisions to the report for Council consideration at a future meeting.

Option 3: Some other option not contemplated in the above options.



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CITY OF LACEY

City of Lacey Transportation Benefit District

2023 Annual Report

Date:	August 13st, 2024
Department:	Public Works Department
Address:	420 College Street SE
	Lacey, WA 98503
Contact:	Brian Petrin
Phone:	(360) 493-2417
Email:	Brian.Petrin@cityoflacey.org

https://cityoflacey.org/

Summary

Remarks:

The City of Lacey is pleased to present the *2023 Annual Report* pertaining to its Transportation Benefit District (TBD). This report provides a summary of 2023 revenues and expenditures associated with TBD funds along with project schedule updates. All revenues and expenditure summaries within this report reflect the activity between January 1st and December 31st of 2023.

Background:

The Lacey City Council created the Lacey Transportation Benefit District, a quasi-municipal taxing jurisdiction, authorized by State law to fund street maintenance. Lacey voters approved a sales tax increase of 0.2% (two-tenths of one percent) for a period of ten years to fund street maintenance projects within City limits. Revenues collected from this additional sales tax levy are held in separate accounts and used only for authorized street maintenance projects.

Governance:

The Lacey TBD was originally established in January 2016, with the City Council acting as the Governing Board. It is the responsibility of the Board to oversee the activities, expenditures, and revenues related to the TBD. All business associated with the TBD shall be managed by the Board during regular City Council meetings.

Purpose:

City street infrastructure is aging and funding is needed for street and sidewalk improvements. Transportation infrastructure is one of the City's most valuable investments and deferred maintenance drives repair costs higher. State and Federal funding for maintenance and preservation of the City's streets has been reduced in recent years; and while these revenues have decreased, costs continue to rise. The Lacey TBD was established in order to provide the resources required for the City to adequately preserve and maintain its inventory of streets and sidewalks.

Statute(s):

The Revised Code of Washington (RCW) 36.73.160(2) states that a district shall issue an annual report indicating the status of transportation improvement costs, expenditures, revenues, and construction schedules to the public and to newspapers of record within the district.

Completed Projects

Project Year	Project Type	Lane Miles	HMA Tons $/Ton	Slurry SY $/SY	Sidewalk SY	Crack Seal LF	TBD Funds
2017	Overlay[1]	0.27	175 TN $105	0	0	0	$0.05M
2018	Overlay, Reconstruction	3.56	5,477 TN $127	0	17	0	$2.15M
2019	Overlay[2], Selective Dig-outs, Sidewalk	11.74	15,881 TN $111	0	1137 52 Curb Ramps	0	$1.73M
2020	Reconstruction, Widening, Patch Repair	2.67	7,640 TN $84	0	0	0	$1.44M
2021	Reconstruction, Slurry Seal, Sidewalk[3]	6.90 14.88	19,360 TN $96	152,550 SY $2.25	1560[3]	0	$4.19M
2022	Overlay, Reconstruction, Sidewalk[3]	5.70	11,725 TN $119	0	2606[4]	0	$3.77M
2023	Reconstruction[1], Crack Seal[3]	9.42 5.90	28,890 TN $105	0	0	62,590	$6.97M
	GRAND TOTAL	61.04					$20.30M

1 *Section of the project was a Utility project, the Utility paved a portion of the roadway, TBD paved the remainder.*
2 *Project was jointly funded with a federal transportation grant*
3 *Project carried over into next fiscal year*
4 *Updated quantity from prior report*

See Figure 1 TBD Fund Project Map on Pg. 3

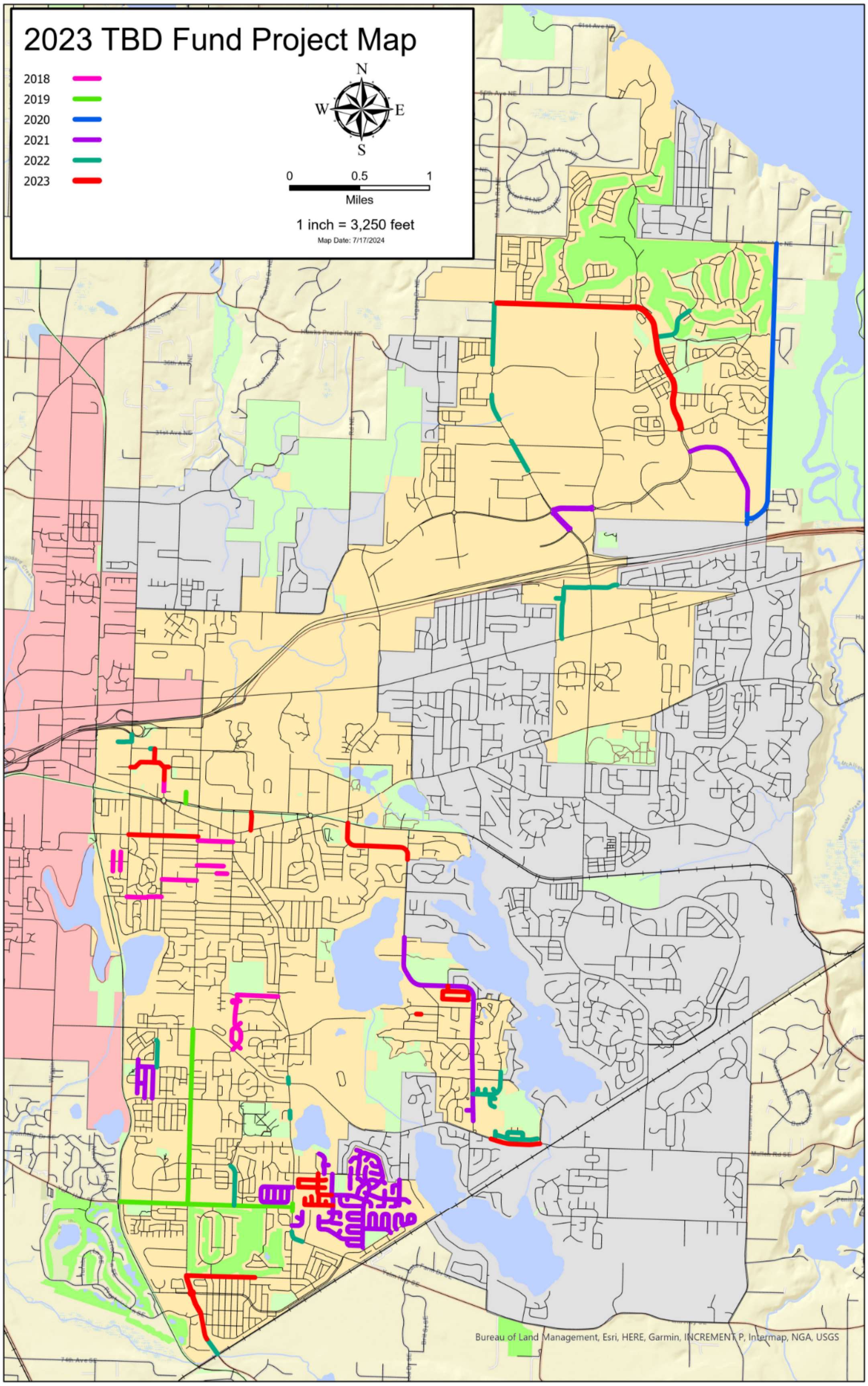


Figure 1 TBD Fund Project Map

2023 Projects:

2022 Overlay Utilities Project Limits: Franz St. SE 14th St. SE 7th St. SE Golf Club Rd. SE Golf Club Pl. SE	Project Scope: Pavement Reconstruction Water Line Replacement Construction Cost: $1.61M TBD ($2.48M Total) See Figures 2-4 on Pg 6
Carpenter Rd. Impr. Project Limits: Carpenter Rd. SE	Project Scope: Pavement Rehabilitation Water Line Replacement Construction Cost: $887K TBD ($3.55M Total) See Figures 5-6 on Pg 6-7
Mullen Sewer Impr. Project Limits: Mullen Rd. SE	Project Scope: Pavement Rehabilitation Sewer Line Replacement Construction Cost: $468K TBD ($1.17M Total) See Figures 7-8 on Pg 7

2023 Overlay Phase 1

Project Limits:

- Rainier Rd. SE
- 66th Ave. SE
- Carpenter Hills Lp. SE
- Emerald Hills Neighborhood

Project Scope:

- Pavement Rehabilitation
- Minor Storm Upgrade

Construction Cost:

$3.18M

See Figures 9-13 on Pg 7-8

2022 Sidewalk Repair

Project Limits:

- Rosewood/Willows Crossing neighborhood
- Parkside Dr. SE
- 6th Ave. SE
- Sleater Kinney Rd. SE

Project Scope:

- Sidewalk Repair

Construction Cost:

$253K ($541K Incl. 2022)

See Figures 14-15 on Pg 9

2023 Crack Seal Program

Project Limits:

- Willamette Dr. NE
- 41st Ave. NE

Project Scope:

- Crack Seal

Construction Cost:

$84K (Completed in 2024)

See Figures 16-17 on Pg 9

TBD Dollars at Work

Fig. 2 Franz St. SE

Fig. 3 7th Ave. SE

Fig. 4 14th Ave. SE

Fig. 5 Carpenter Rd. SE

Fig. 6 Carpenter Rd. SE

Fig. 7 Mullen Rd. SE

Fig. 8 Mullen Rd. SE

Fig. 9 66th Ave. SE

Fig. 10 RAB @ Rainier & Balustrade

Fig. 11 Emerald Hills

Fig. 12 7th Ave. SE

Fig. 13 Carpenter Hills Lp. SE

Fig. 14 Sidewalk @ Parkside Dr.

Fig. 15 Sidewalk @ Willows Crossing

Fig. 16 Crack Seal @ Willamette Dr.

Fig. 17 Crack Seal @ 41st Ave.

2023 TBD Finances:

The following schedule of revenues, expenditures, and changes in fund balance summarizes the TBD finances for the 2023 fiscal year:

Statement of Revenues, Expenditures, and Changes in Fund Balance
City of Lacey Transportation Benefit District
For the Year Ended December 31, 2023

Revenues		
TBD Sales and Use Tax (0.2%)	$	3,898,334
Other revenues	$	238,531
Total revenues	*$*	*4,136,865*
Expenditures		
Current:		
Other Expenditures		-
Capital outlay:		
Engineering (Design and Construction)	$	862,856
Roadway Construction		5,858,357
Sidewalk Construction		253,376
Debt service:		
Principal retirement		-
Interest		-
Debt issue costs		-
Total expenditures	$	6,974,589
Excess (deficiency) of revenue over (under) expenditures	$	(2,837,724)
Other Financing Sources (Uses)		
Proceeds from sale of assets		-
Debt issuance		-
Transfers in		-
Transfers out		-
Total other financing sources (uses)		-
Net change in fund balances	$	(2,837,724)
Fund balance - beginning		5,816,788
Fund balance - ending	***$***	***2,979,064***

LACEY CITY COUNCIL WORKSESSION
August 13, 2024

SUBJECT: **Second Quarter 2024 Investment Report**

RECOMMENDATION: **Review Second Quarter Investment Report**

STAFF CONTACT: Rick Walk, City Manager
Troy Woo, Finance Director
Alix Turcotte, Senior Accountant

ORIGINATED BY: Finance Department

ATTACHMENTS: 1. Government Portfolio Advisors Quarterly Investment Report

FISCAL NOTE:

WORK PLAN GOAL AND STRATEGY:

PRIOR REVIEW:

BACKGROUND:

The City's adopted investment policy requires quarterly reporting to the City Manager and annual reporting to the City Council. The Finance and Economic Development Committee requests to extend extra review of the reports to semi-annually and that quarterly reports be presented to City Manager.

The 2024 second quarter report has been prepared by the City's investment advisor, Government Portfolio Advisors (GPA). The three main components of the quarterly report include the following:

1. The report opens with a market commentary, market outlook, current investment policy compliance report, updates to the strategic outlook, and portfolio positioning.

2. There are sections illustrating the quarterly asset allocation changes and historical balances.

3. A summary of the City’s total invested funds including information relating to types, maturities, and investment activity, investment earnings and accruals that occurred during the report period.

Lacey’s core fund portfolio had a fairly strong performance against the investment strategy benchmark this quarter. The core fund net total return, net of fees, for the quarter was 0.91 percent, while the benchmark total return for the period was 0.93 percent. The net total return includes changes to market value, which has experienced decreases due to the historic interest rate increase environment.

The total portfolio *unrealized loss* at the end of the quarter was $3,878,766. It should be noted an unrealized loss is only an accounting, or *“on paper”*, loss that will not be realized unless investments are sold before the maturity date. As an example, a loss could occur in the event an investment is sold prior to the maturity date *and* the open market is paying a higher interest rate than the investment instrument the City is attempting to sell. The current market is experiencing rising interest rates and a number of the City’s investment instruments were purchased prior to the 2022 interest rate increases. The City has no intention of selling investments prior to maturity dates, which means *no loss is anticipated* by the City. The City carefully analyzes its cashflow needs to avoid selling investments before maturity. It would take multiple and rare circumstances for the City to sell investments at a loss.

- The Fed’s Federal Open Market Committee (FOMC) held off on lowering rates again in the second quarter. It is predicted that the Fed will lower rates 25 basis points in both September and December, which would put rates around 4.75% to 5.00% by the end of the year.

- Two-year treasury yields increased by two basis points in the second quarter, ending at 4.75%. Once Fed rates decrease, it is expected that two-year yields will follow suit.

- The total portfolio book yield increased from 3.49% to 3.67% during the quarter.

- The City’s core portfolio remains positioned slightly overweighted toward treasuries due to the continuing tight spread of corporate securities. GPA will continue to monitor for opportunities to add wider spread credit to the portfolio.

- The core portfolio duration decreased again this quarter, from 2.054 to 2.025. This is lower than the benchmark duration, which ended the quarter at 2.103. Because rates are anticipated to lower later in the year, GPA will continue to position the core portfolio duration neutral to long.

Quarterly Investment Report
City of Lacey

June 30, 2024

Total Aggregate Portfolio

Market Commentary

Market Yields: Market yields in Q2 rose early in the quarter on April's strong jobs data and March's CPI print before partially retreating as the data evolved into slowing inflation and softer employment, leading fixed-income investors to adjust their expectations of the Fed funds market over the near future. Entering Q2, market participants expected the Fed to lower rates at their June meeting, and if not, certainly at their July meeting. The meetings in June and July passed without the Fed acting to lower rates. Inflation proved just sticky enough to reduce expectations of the extent and the timing of lower rates. The economic environment continued to show more resilience to higher rates than expected, which added to the uncertainty of when the Fed would move to lower rates and how long the action to lower rates would last. The bellwether two-year Treasury note increased 13 basis points in yield from Q1 to Q2, closing Q2 with a yield of 4.75%.

FOMC: The Federal Open Market Committee (FOMC) was cautious about lowering rates in Q2 2024. Despite the Fed's progress in lowering inflation closer to its 2% target, the FOMC communicated its intention to hold off on rate cuts until it is confident that inflation will continue to decrease. This cautious approach will help prevent a premature easing that could reverse the Fed's progress in lowering inflation.

Employment: The labor market softened in Q2 as the unemployment rate rose to 4.1%, the highest level since November 2021. Job openings declined along with a decrease in the quits ratio as fewer workers walked away from their jobs, hoping to find something better. A growing number of people filed for unemployment benefits. The increase in labor slack contributed to a slowing in wage growth from 4.1% to 3.9%. However, continued weakness in labor and moderating wage growth provides a promising outlook for the future as it will likely allow the Fed to ease rates sometime in Q3, most likely at their September 18 meeting.

Market Outlook

Inflation: The Fed's preferred inflation metric, Core PCE, slowed during Q2 from a year-ending annual growth rate of 2.9% to 2.6% in Q2. The lag effects of higher interest rates are complex to time but are constantly working to increase the cost of capital, which should eventually slow final demand and, consequently, inflationary growth. The Fed funds rate is still trading higher than the inflation rate, which is slightly restrictive but will not deter the Fed from lowering rates as inflation moves closer to its 2% long-term target.

GDP: Real GDP slowed to a currently estimated rate of 1.4% in Q2 from a rate of 3.4% at the end of 2023. GDP growth is expected to show moderate growth between 1.5% and 2% throughout the remainder of 2024.

Fed Funds: The Fed continued to be on hold in Q2, leaving the Fed funds rate unchanged from 5.25% to 5.50%. The continuation of the disinflationary trend, along with a slightly weaker labor market, should allow the Fed an opportunity to start its easing phase of this cycle. We expect the Fed will lower rates by 25 basis points at their September 18th meeting and then another 25 basis points at their December 18th meeting. By year-end, Fed funds are expected to be trading at 4.75% to 5.00%.

Two-year Yield Expectations: During Q2, Two-year Treasury yields increased by 13 basis points from 4.62% to 4.75%. Two-year yields are expected to decline with the Fed funds rate as market participants are forecasting two-year notes to trade at 4.50% in Q3 and 4.25% in Q4.

Portfolio Positioning and Strategic Outlook: Credit spreads are trading at historically tight levels, and the Fed is near the end of its tightening cycle. This late-cycle environment should argue for a tactical portfolio adjustment to overweight duration and underweight credit. As the Fed begins to ease into a weakening economy. Longer duration Treasury issues should outperform the added yield provided in similar duration credit securities. As the economy weakens and credit spreads begin to widen, we will watch for future opportunities to add credit with more attractive spreads relative to Treasury yields.

Quarterly Yield Change

	09/30/23	12/31/23	03/31/24	06/30/24
3 month bill	5.451	5.33	5.36	5.355
2 year note	5.046	4.25	4.62	4.753
5 year note	4.611	3.85	4.21	4.377
10 year note	4.572	3.88	4.2	4.396

Economists' Survey Projections

	Q3-24	Q4-24	Q1-25	Q2-25
Real GDP	1.6	1.6	1.8	1.9
Core PCE (YOY%)	2.7	2.7	2.4	2.3
Unemployment	4.0	4.1	4.1	4.2

Economists' Survey Projections for Rates

	Q3-24	Q4-24	Q1-25	Q2-25
Fed Funds	5.35	5.05	4.75	4.4
2 Year	4.53	4.24	4.03	3.85
10 year	4.25	4.13	4.06	4.01

Compliance Report

City of Lacey | Total Aggregate Portfolio

June 30, 2024

Category

Policy Diversification Constraint	Policy Limit	Actual Value*	Status
US Treasury Obligations Maximum % of Holdings	100.000	32.326	Compliant
US Agency Callable Securities Maximum % of Total Portfolio	31.500	0.000	Compliant
US Agency FFCB Issuer Concentration	35.000	16.657	Compliant
US Agency FHLB Issuer Concentration	35.000	13.749	Compliant
US Agency FHLMC Issuer Concentration	35.000	0.000	Compliant
US Agency FNMA Issuer Concentration	35.000	0.000	Compliant
US Agency Obligations - All Other Issuers Combined	35.000	0.000	Compliant
US Agency Obligations Issuer Concentration	35.000	16.657	Compliant
US Agency Obligations Maximum % of Holdings	35.000	30.406	Compliant
Supranationals - Issuer is ADB, IADB, IBRD, or IFC	0.000	0.000	Compliant
Supranationals Issuer Concentration	5.000	1.483	Compliant
Supranationals Maximum % of Holdings	10.000	3.716	Compliant
Municipal Bonds Issuer Concentration	5.000	1.928	Compliant
Municipal Bonds Maximum % of Holdings	30.000	5.418	Compliant
Municipal Bonds WA issues GO/Local and GO only Outside WA	0.000	0.000	Compliant
Municipal Issue Directly Internally or Interfund Loans Maximum % of Holdings	15.000	0.000	Compliant
Corporate Notes & Commercial Paper Foreign Exposure except Canada	2.000	0.000	Compliant
Corporate Notes & Commercial Paper Maximum % of Holdings	25.000	7.140	Compliant
Corporate Notes & Commercial Paper Single Issuer %	3.000	1.307	Compliant
Corporate Notes Ratings Minimum A-/A3/A- by All if rated	0.000	0.000	Compliant
Corporate Notes Split AA- to A- Issuer Concentration % (All must be rated at least A-) (2%)	2.000	0.000	Compliant
Certificates of Deposit Issuer Concentration	5.000	0.000	Compliant
Certificates of Deposit Maximum % of Holdings	20.000	0.000	Compliant
Banker's Acceptance Issuer Concentration	5.000	0.000	Compliant
Banker's Acceptance Maximum % of Holdings	10.000	0.000	Compliant
LGIP Maximum % of Holdings	100.000	17.576	Compliant
PDPC Bank Deposits Issuer Concentration	100.000	3.390	Compliant
PDPC Bank Deposits Maximum % of Holdings	20.000	3.390	Compliant

1) Actual values are based on market value.
2) The compliance report allows for resolutions to be documented if an actual value exceeds a limit. The specific resolution can be found on the client portal site.

Compliance Report

City of Lacey | Total Aggregate Portfolio

June 30, 2024

Category

Policy Maturity Structure Constraint	Policy Limit	Actual %	Status
Maturity Constraints Under 30 days Minimum % of Total Portfolio	10.000	22.700	Compliant
Maturity Constraints Under 1 year Minimum % of Total Portfolio	25.000	42.961	Compliant
Maturity Constraints Under 5.5 years Minimum % of Total Portfolio	100.000	100.000	Compliant
Policy Maturity Constraint	**Policy Limit**	**Actual Term**	**Status**
US Treasury Maximum Maturity At Time of Purchase (years)	5.500	4.973	Compliant
US Agency Maximum Maturity At Time of Purchase (years)	5.500	5.142	Compliant
Supranationals Maximum Maturity At Time of Purchase (years)	5.500	4.841	Compliant
Municipals Maximum Maturity At Time of Purchase (years)	5.500	5.148	Compliant
Corporate Maximum Maturity At Time of Purchase (years)	5.500	4.956	Compliant
Corporate Note Portfolio Duration (years)	3.000	1.732	Compliant
Commercial Paper Maximum Maturity At Time of Purchase (days)	270.000	0.000	Compliant
Commercial Paper Over 100 days Minimum Long Term Rating A-/A3/A- by one	0.000	0.000	Compliant
Certificates of Deposit Maximum Maturity At Time of Purchase (years)	5.500	0.000	Compliant
Banker's Acceptance Maximum Maturity At Time of Purchase (days)	180.000	0.000	Compliant
Weighted Average Maturity (years)	2.000	1.724	Compliant
Policy Credit Constraint			**Status**
Supranationals Ratings AA-/Aa3/AA- or better (Rated by 1 NRSRO)			Compliant
Municipal Bonds Ratings Minimum A-/A3/A- (Rated by 1 NRSRO)			Compliant
Corporate Notes AA-/Aa3/AA- by All If Rated Issuer Concentration (3%)			Compliant
Corporate Notes Single A with Negative Outlook Cannot Purchase			Compliant
Commercial Paper Ratings Minimum ST Rating A1/P1/F1 (Rated by 2 NRSROs)			Compliant

1) Actual values are based on market value.
2) The compliance report allows for resolutions to be documented if an actual value exceeds a limit. The specific resolution can be found on the client portal site.

Strategic Quarterly Update

City of Lacey | Total Aggregate Portfolio

June 30, 2024

Strategic Outlook

• Real GDP increased in Q1 at a 1.4% annual rate, a slowdown from the strong Q3 and Q4 2023 marks but remains in positive territory. Over the coming year, growth is expected to show moderate advancement ranging from 1.5% to 2%.

• The consumer continues to prove resilient in the face of elevated inflation, but signs of softening are evident. With unemployment ticking up to 4.1% in Q2 – the highest level since November 2021 – and wage growth slowing, the economic environment provides a promising outlook for the Fed to ease rates, which we believe will most likely occur during the September meeting

• Core PCE slowed from a year-ending annual growth rate of 2.9% to 2.6% as the disinflationary trend resumed moving towards the Fed's target 2% level. As a result, more economists are predicting that the Fed may successfully navigate the elusive soft landing.

Portfolio Positioning

- In anticipation of lower interest rates over the coming year, we continue to position Core Investment portfolios duration neutral to long relative to their respective benchmarks.
- We maintained our overweight to US Treasuries in Q2 due to tight yield spreads on Agencies and Corporates. Looking forward, we seek opportunities to add to these asset classes should spreads widen.
- The total portfolio book yield increased from 3.495 to 3.667.
- The total portfolio unrealized loss ended the quarter at -$3,878,766.
- The core portfolio duration decreased over the quarter from 2.054 last quarter to 2.025 this quarter. The benchmark duration ended the quarter at 2.103.
- Net total return for the core portfolio, which includes change in market value and interest income, was 0.91%. The benchmark total return for the period was 0.93%.

Strategic Quarterly Update

City of Lacey | Total Aggregate Portfolio

June 30, 2024

Metric	Previous	Current
Strategy	**03/31/2024**	**06/30/2024**
Effective Duration		
Investment Core	2.05	2.02
Benchmark Duration	2.10	2.10
Total Effective Duration	**1.63**	**1.60**
Total Return (Net of Fees %)*		
Investment Core	0.35	0.91
Benchmark Return	0.25	0.93
Total Portfolio Performance	**0.51**	**0.94**
**Changes in Market Value include net unrealized and realized gains/ losses.*		
Maturity Total Portfolio		
Average Maturity Total Holdings	**1.75**	**1.73**

Metric	Previous	Current
Book Yield	**03/31/2024**	**06/30/2024**
Ending Book Yield		
Investment Core	3.24%	3.43%
Liquidity	4.48%	4.55%
Total Book Yield	**3.49%**	**3.67%**
Values	**03/31/2024**	**06/30/2024**
Market Value + Accrued		
Investment Core	206,313,313	206,809,642
Liquidity	54,478,545	54,483,695
Total MV + Accrued	**260,791,858**	**261,293,337**
Net Unrealized Gain/Loss		
Total Net Unrealized Gain/Loss	**(4,007,985)**	**(3,878,766)**

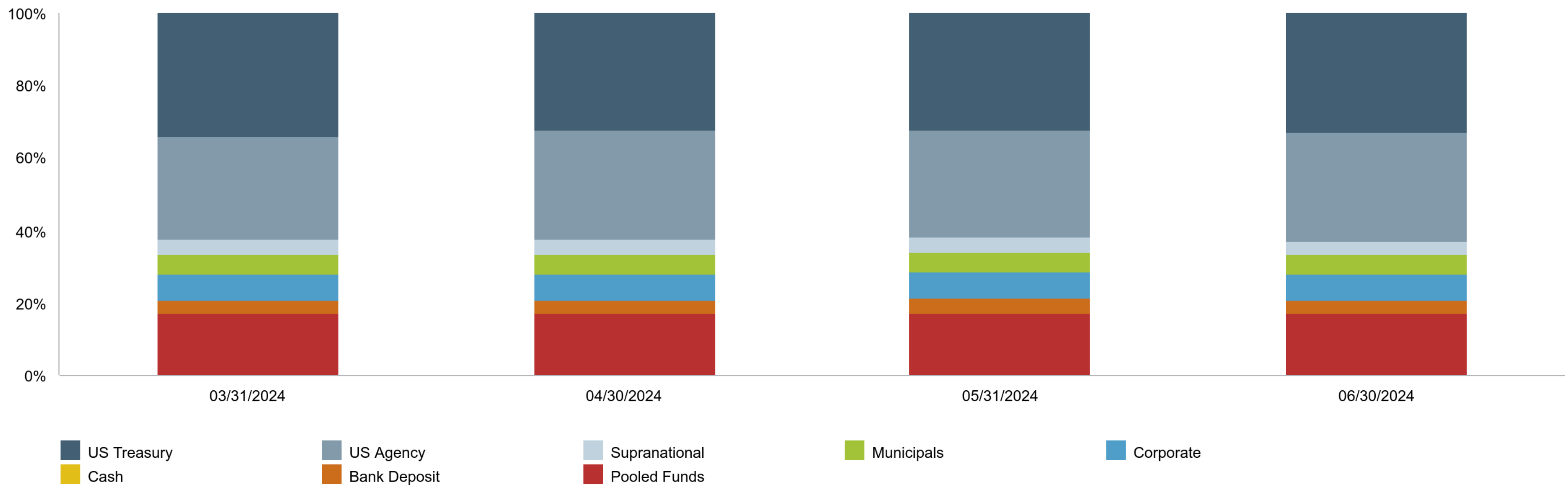
Asset Allocation Change over Quarter

City of Lacey | Total Aggregate Portfolio

June 30, 2024

Asset Allocation Changes

	03/31/2024		06/30/2024		Change	
Security Type	**Market Value + Accrued**	**% of Portfolio**	**Market Value + Accrued**	**% of Portfolio**	**Market Value + Accrued**	**% of Portfolio**
US Treasury	87,649,814.17	33.61%	84,309,038.94	32.27%	(3,340,775.22)	(1.34%)
US Agency	74,358,327.50	28.51%	79,689,632.33	30.50%	5,331,304.83	1.99%
Supranational	11,229,712.01	4.31%	9,809,232.01	3.75%	(1,420,480.00)	(0.55%)
Municipals	14,264,153.33	5.47%	14,220,706.58	5.44%	(43,446.75)	(0.03%)
Corporate	18,781,618.33	7.20%	18,706,657.61	7.16%	(74,960.72)	(0.04%)
Cash	29,687.50	0.01%	74,375.00	0.03%	44,687.50	0.02%
Bank Deposit	9,413,084.17	3.61%	8,808,782.09	3.37%	(604,302.08)	(0.24%)
Pooled Funds	45,065,460.51	17.28%	45,674,912.63	17.48%	609,452.12	0.20%
Total	260,791,857.53	100.00%	261,293,337.21	100.00%	501,479.68	



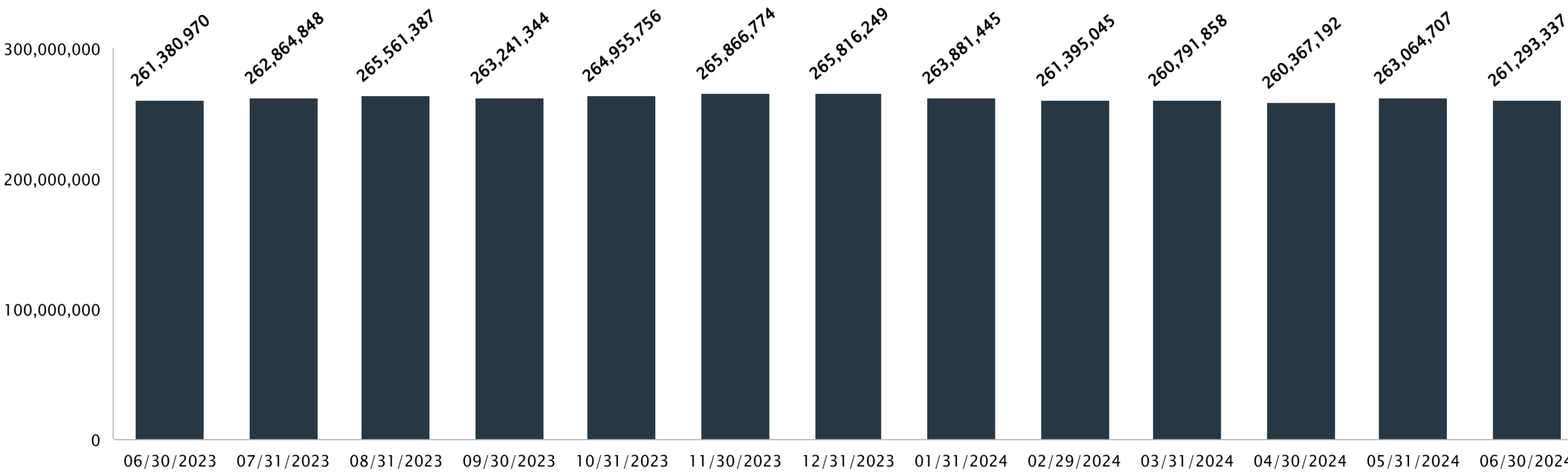
If negative cash balance is showing, it is due to a pending trade payable at the end of period.

Historical Balances

City of Lacey | Total Aggregate Portfolio

June 30, 2024

Market Value



Market Value and Return

Period Begin	Period End	Market Value + Accrued	Earned Income	Book Yield	Effective Duration	Maturity in Years
06/01/2023	06/30/2023	261,380,970	588,165	2.79%	1.60	1.70
07/01/2023	07/31/2023	262,864,848	624,165	2.85%	1.61	1.72
08/01/2023	08/31/2023	265,561,387	635,337	2.89%	1.60	1.72
09/01/2023	09/30/2023	263,241,344	651,494	2.99%	1.62	1.73
10/01/2023	10/31/2023	264,955,756	679,250	3.03%	1.55	1.66
11/01/2023	11/30/2023	265,866,774	694,345	3.22%	1.63	1.76
12/01/2023	12/31/2023	265,816,249	722,239	3.24%	1.60	1.71
01/01/2024	01/31/2024	263,881,445	732,165	3.35%	1.63	1.75
02/01/2024	02/29/2024	261,395,045	723,417	3.42%	1.64	1.76
03/01/2024	03/31/2024	260,791,858	760,074	3.50%	1.63	1.75
04/01/2024	04/30/2024	260,367,192	763,656	3.55%	1.61	1.74
05/01/2024	05/31/2024	263,064,707	792,520	3.61%	1.62	1.75
06/01/2024	06/30/2024	261,293,337	791,056	3.67%	1.60	1.73

Summary Overview

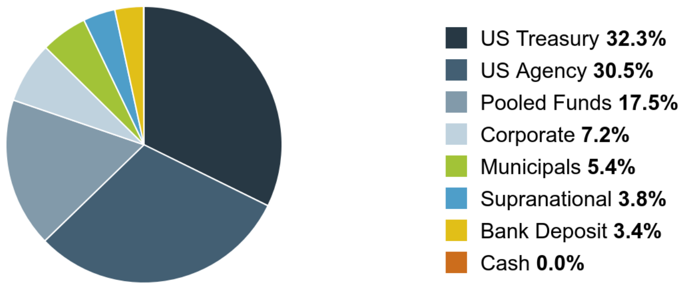
City of Lacey | Total Aggregate Portfolio

June 30, 2024

Portfolio Characteristics

Metric	Value
Cash and Cash Equivalents	54,558,069.72
Investments	206,735,267.49
Book Yield	3.67%
Market Yield	4.80%
Effective Duration	1.60
Years to Maturity	1.73
Avg Credit Rating	AAA

Allocation by Asset Class



Strategic Structure

Account	Par Amount	Book Value	Original Cost	Market Value	Net Unrealized Gain (Loss)	Accrued	Yield at Cost	Effective Duration	Benchmark Duration	Benchmark
LACEY-Investment Core	211,569,375.00	209,266,774.38	207,469,237.03	205,388,008.00	(3,878,766.38)	1,421,634.49	3.43%	2.02	2.10	ICE BofA 0-5 Year US Treasury Index
LACEY-Liquidity	54,483,694.72	54,483,694.72	54,483,694.72	54,483,694.72	0.00	0.00	4.55%	0.01	0.08	ICE BofA US 1-Month Treasury Bill Index
Total	**266,053,069.72**	**263,750,469.10**	**261,952,931.75**	**259,871,702.72**	**(3,878,766.38)**	**1,421,634.49**	**3.67%**	**1.60**	**0.48**	

Portfolio Activity

City of Lacey | Total Aggregate Portfolio

June 30, 2024

Accrual Activity Summary

	Quarter to Date	Fiscal Year to Date (01/01/2024)
Beginning Book Value	263,428,271.66	267,784,954.04
Maturities/Calls	(10,000,000.00)	(23,000,000.00)
Purchases	10,006,238.51	23,006,965.76
Sales	0.00	0.00
Change in Cash, Payables, Receivables	49,837.54	(4,555,847.74)
Amortization/Accretion	266,121.39	514,397.04
Realized Gain (Loss)	0.00	0.00
Ending Book Value	263,750,469.10	263,750,469.10

Fair Market Activity Summary

	Quarter to Date	Fiscal Year to Date (01/01/2024)
Beginning Market Value	259,420,286.18	264,641,803.96
Maturities/Calls	(10,000,000.00)	(23,000,000.00)
Purchases	10,006,238.51	23,006,965.76
Sales	0.00	0.00
Change in Cash, Payables, Receivables	49,837.54	(4,555,847.74)
Amortization/Accretion	266,121.39	514,397.04
Change in Net Unrealized Gain (Loss)	129,219.10	(735,616.30)
Net Realized Gain (Loss)	0.00	0.00
Ending Market Value	259,871,702.72	259,871,702.72

Maturities/Calls	Market Value
Quarter to Date	(10,000,000.00)
Fiscal Year to Date	(23,000,000.00)

Purchases	Market Value
Quarter to Date	10,006,238.51
Fiscal Year to Date	23,006,965.76

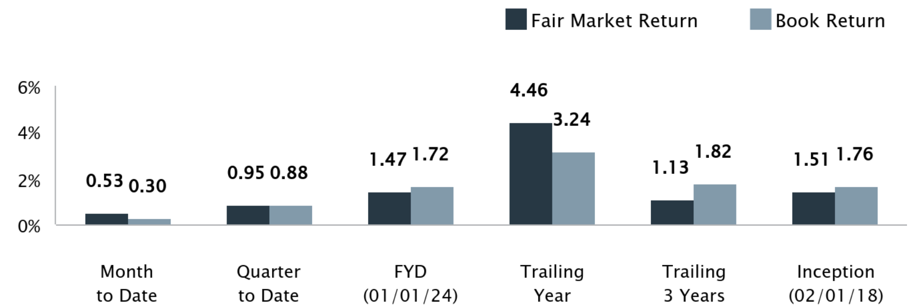
Sales	Market Value
Quarter to Date	0.00
Fiscal Year to Date	0.00

Accrued Book Return

	Quarter to Date	Fiscal Year to Date (01/01/2024)
Amortization/Accretion	266,121.39	514,397.04
Interest Earned	2,081,110.39	4,048,489.94
Realized Gain (Loss)	0.00	0.00
Book Income	2,347,231.78	4,562,886.98
Average Portfolio Balance	260,150,594.24	261,074,287.68
Book Return for Period	0.88%	1.72%

Return Comparisons

Periodic for performance less than one year. Annualized for performance greater than one year.



Fair Market Return

	Quarter to Date	Fiscal Year to Date (01/01/2024)
Market Value Change	129,219.10	(735,616.30)
Amortization/Accretion	266,121.39	514,397.04
Interest Earned	2,081,110.39	4,048,489.94
Fair Market Earned Income	2,210,329.49	3,312,873.63
Average Portfolio Balance	260,150,594.24	261,074,287.68
Fair Market Return for Period	0.95%	1.47%

Interest Income

	Quarter to Date	Fiscal Year to Date (01/01/2024)
Beginning Accrued Interest	1,371,571.35	1,174,445.39
Coupons Paid	2,089,299.73	3,953,868.95
Purchased Accrued Interest	28,564.98	81,304.22
Sold Accrued Interest	0.00	0.00
Ending Accrued Interest	1,421,634.49	1,421,634.49
Interest Earned	2,081,110.39	4,048,489.94

Security Type Distribution

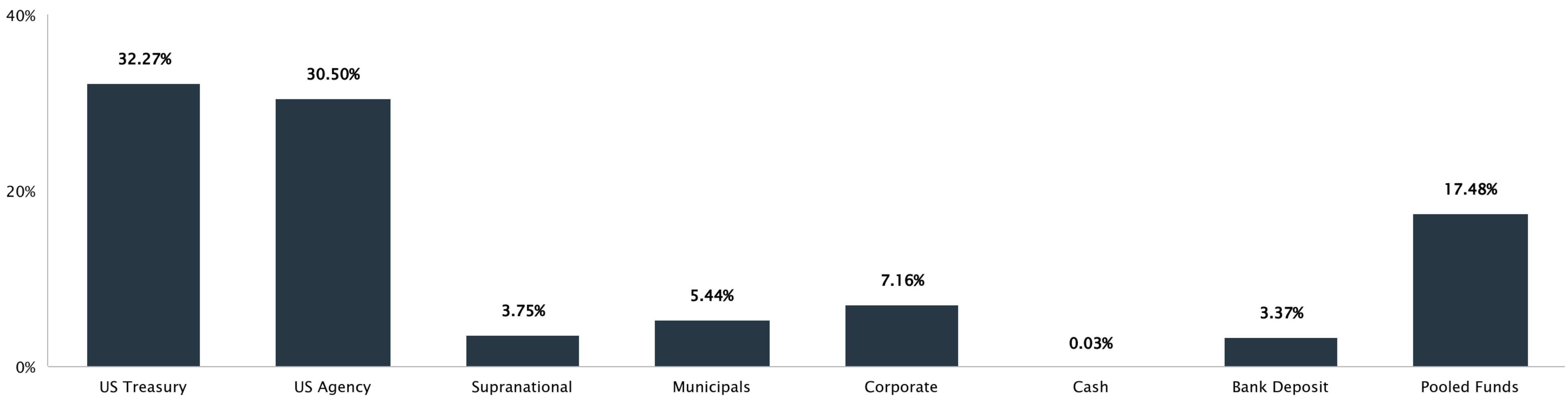
City of Lacey | Total Aggregate Portfolio

June 30, 2024

Security Type Distribution

Security Type	Par Amount	Book Yield	Market Value + Accrued	% of Market Value + Accrued
US Treasury	87,450,000.00	2.01%	84,309,038.94	32.27%
US Agency	79,995,000.00	4.32%	79,689,632.33	30.50%
Supranational	10,000,000.00	4.44%	9,809,232.01	3.75%
Municipals	15,050,000.00	4.51%	14,220,706.58	5.44%
Corporate	19,000,000.00	4.76%	18,706,657.61	7.16%
Cash	74,375.00	0.00%	74,375.00	0.03%
Bank Deposit	8,808,782.09	0.00%	8,808,782.09	3.37%
Pooled Funds	45,674,912.63	5.43%	45,674,912.63	17.48%
Total	**266,053,069.72**	**3.67%**	**261,293,337.21**	**100.00%**

Security Type Distribution



Risk Management-Credit/Issuer

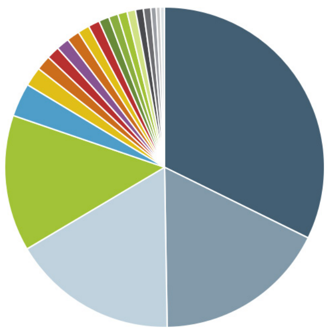
City of Lacey | Total Aggregate Portfolio

June 30, 2024

Credit Rating S&P/Moody's/Fitch

	Market Value + Accrued	%
S&P		
A	4,442,424.58	1.70
A+	5,345,971.22	2.05
AA	9,150,071.17	3.50
AA+	170,474,274.75	65.24
AA-	7,513,293.75	2.88
AAA	9,883,607.01	3.78
NA	54,483,694.72	20.85
Moody's		
A1	7,823,739.58	2.99
Aa1	1,023,953.61	0.39
Aa2	13,908,389.08	5.32
Aa3	6,757,061.36	2.59
Aaa	177,296,498.85	67.85
NA	54,483,694.72	20.85
Fitch		
A+	1,413,699.58	0.54
AA	14,495,266.86	5.55
AA+	163,998,671.28	62.76
AA-	8,454,653.44	3.24
AAA	3,463,255.35	1.33
NA	69,467,790.69	26.59
Total	**261,293,337.21**	**100.00**

Issuer Concentration



- United States **32.3%**
- WASHINGTON LGIP **17.5%**
- Farm Credit System **16.7%**
- Federal Home Loan Banks **13.8%**
- Umpqua Bank **3.4%**
- State of California **1.9%**
- International Bank for Reconstruction and Development **1.5%**
- Apple Inc. **1.3%**
- Asian Development Bank **1.3%**
- Amazon.com, Inc. **1.3%**
- State of Hawaii **1.2%**
- The Toronto-Dominion Bank **1.2%**
- City of New York, New York **1.0%**
- Inter-American Development Bank **1.0%**
- Visa Inc. **0.9%**
- Commonwealth of Pennsylvania **0.9%**
- Morgan Stanley **0.8%**
- Walmart Inc. **0.8%**
- Deere & Company **0.5%**
- Other **0.4%**
- State Of Rhode Island **0.4%**

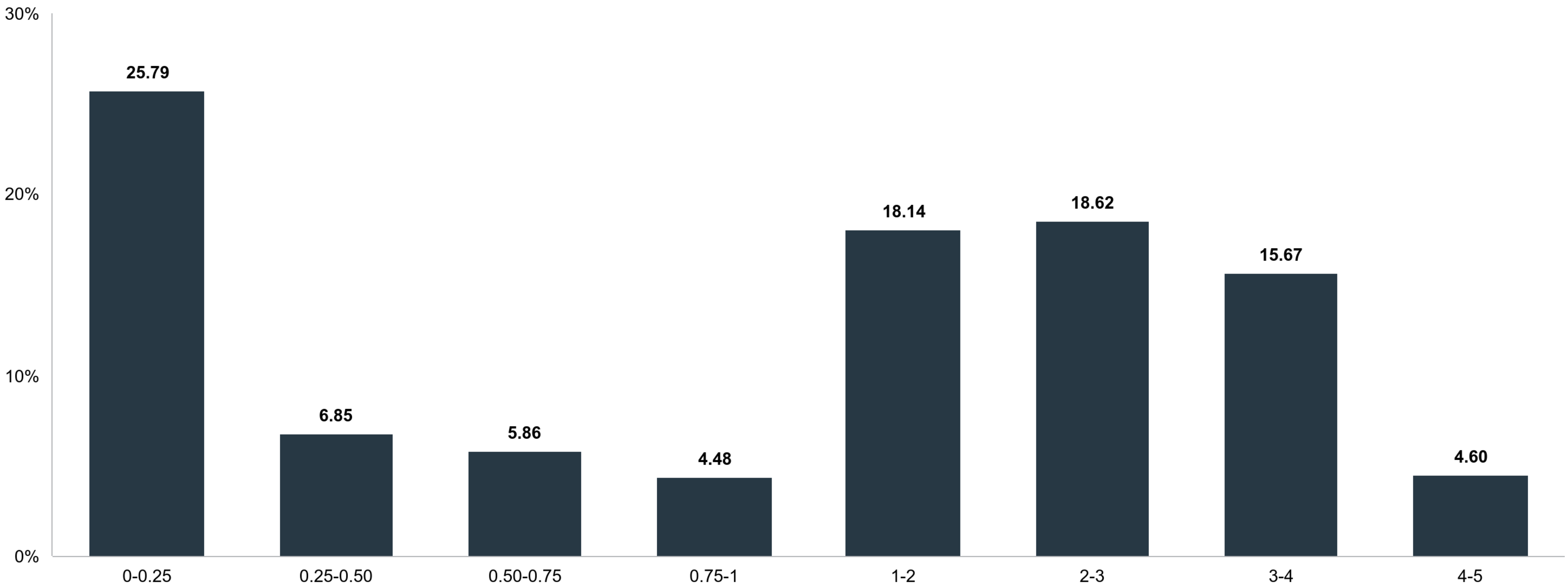
Risk Management-Maturity/Duration

City of Lacey | Total Aggregate Portfolio

June 30, 2024

1.60 Yrs	Effective Duration
1.73 Yrs	Years to Maturity
631	Days to Maturity

Distribution by Effective Duration



Holdings by Maturity & Ratings

City of Lacey | Total Aggregate Portfolio

June 30, 2024

Cusip	Par Amount	Security	Coupon Rate	Maturity Date	Call Date	Market Value	Accrued	Market Value + Accrued	Book Yield	Market Yield	% of Portfolio	Years to Maturity	Eff Duration	S&P, Moody, Fitch
CCYUSD	74,375.00	Receivable	0.000%	06/30/2024		74,375.00	0.00	74,375.00	0.00%	0.00%	0.03	0.00	0.00	AAA Aaa AAA
LACEY_UMP_ DEP	664.73	UMPQUA BANK DEPOSIT	0.140%	06/30/2024		664.73	0.00	664.73	0.14%	0.14%	0.00	0.01	0.01	NA NA NA
LACEY_UMP_ CHK	8,808,117.36	UMPQUA BANK DEPOSIT	0.000%	06/30/2024		8,808,117.36	0.00	8,808,117.36	0.00%	0.00%	3.37	0.01	0.01	NA NA NA
WA_LGIP	45,674,912.63	WASHINGTON LGIP	5.430%	06/30/2024		45,674,912.63	0.00	45,674,912.63	5.43%	5.43%	17.48	0.01	0.01	NA NA NA
91282CCL3	4,500,000.00	UNITED STATES TREASURY	0.375%	07/15/2024		4,491,360.00	7,788.46	4,499,148.46	0.39%	4.49%	1.72	0.04	0.05	AA+ Aaa AA+
3133ENL40	5,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	3.500%	09/13/2024		4,978,400.00	52,500.00	5,030,900.00	4.87%	5.54%	1.93	0.21	0.21	AA+ Aaa AA+
89115A2J0	3,000,000.00	TORONTO-DOMINION BANK	4.285%	09/13/2024		2,990,160.00	38,565.00	3,028,725.00	5.98%	5.81%	1.16	0.21	0.21	A A1 AA-
91282CDB4	2,500,000.00	UNITED STATES TREASURY	0.625%	10/15/2024		2,465,825.00	3,287.23	2,469,112.23	0.71%	5.28%	0.94	0.29	0.29	AA+ Aaa AA+
91282CDH1	4,000,000.00	UNITED STATES TREASURY	0.750%	11/15/2024		3,932,280.00	3,831.52	3,936,111.52	2.21%	5.28%	1.51	0.38	0.37	AA+ Aaa AA+
3133ENZ94	3,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	4.500%	11/18/2024		2,987,640.00	16,125.00	3,003,765.00	4.66%	5.55%	1.15	0.39	0.38	AA+ Aaa AA+
3133EN3M0	5,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	4.625%	12/05/2024		4,979,950.00	16,701.39	4,996,651.39	4.44%	5.55%	1.91	0.43	0.43	AA+ Aaa AA+
912828YY0	3,500,000.00	UNITED STATES TREASURY	1.750%	12/31/2024		3,438,470.00	166.44	3,438,636.44	0.80%	5.32%	1.32	0.50	0.49	AA+ Aaa AA+
912828Z52	2,500,000.00	UNITED STATES TREASURY	1.375%	01/31/2025		2,444,000.00	14,354.40	2,458,354.40	0.77%	5.27%	0.94	0.59	0.57	AA+ Aaa AA+
3133EPBH7	4,500,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	4.750%	02/21/2025		4,483,035.00	77,187.50	4,560,222.50	4.86%	5.34%	1.75	0.65	0.62	AA+ Aaa AA+

Holdings by Maturity & Ratings

City of Lacey | Total Aggregate Portfolio

June 30, 2024

Cusip	Par Amount	Security	Coupon Rate	Maturity Date	Call Date	Market Value	Accrued	Market Value + Accrued	Book Yield	Market Yield	% of Portfolio	Years to Maturity	Eff Duration	S&P, Moody, Fitch
9128283Z1	5,000,000.00	UNITED STATES TREASURY	2.750%	02/28/2025		4,918,800.00	45,957.88	4,964,757.88	4.17%	5.23%	1.90	0.67	0.65	AA+ Aaa AA+
912828ZF0	3,500,000.00	UNITED STATES TREASURY	0.500%	03/31/2025		3,379,985.00	4,398.91	3,384,383.91	0.88%	5.18%	1.30	0.75	0.74	AA+ Aaa AA+
912828ZL7	2,500,000.00	UNITED STATES TREASURY	0.375%	04/30/2025		2,402,950.00	1,579.48	2,404,529.48	0.85%	5.16%	0.92	0.83	0.82	AA+ Aaa AA+
037833BG4	2,500,000.00	APPLE INC	3.200%	05/13/2025		2,457,200.00	10,666.67	2,467,866.67	4.47%	5.22%	0.94	0.87	0.84	AA+ Aaa NA
91282CEQ0	4,000,000.00	UNITED STATES TREASURY	2.750%	05/15/2025		3,917,280.00	14,048.91	3,931,328.91	2.91%	5.18%	1.50	0.87	0.85	AA+ Aaa AA+
912828ZW3	3,000,000.00	UNITED STATES TREASURY	0.250%	06/30/2025		2,859,300.00	20.38	2,859,320.38	0.94%	5.09%	1.09	1.00	0.98	AA+ Aaa AA+
91282CAB7	2,500,000.00	UNITED STATES TREASURY	0.250%	07/31/2025		2,374,125.00	2,609.89	2,376,734.89	0.91%	5.05%	0.91	1.08	1.06	AA+ Aaa AA+
06428CAC8	1,000,000.00	BANK OF AMERICA NA	5.650%	08/18/2025	07/18/2025	1,003,080.00	20,873.61	1,023,953.61	5.83%	5.34%	0.39	1.13	1.01	A+ Aa1 AA
91282CAJ0	3,000,000.00	UNITED STATES TREASURY	0.250%	08/31/2025		2,838,390.00	2,506.79	2,840,896.79	1.34%	5.03%	1.09	1.17	1.14	AA+ Aaa AA+
9128284Z0	3,000,000.00	UNITED STATES TREASURY	2.750%	08/31/2025		2,922,300.00	27,574.73	2,949,874.73	2.94%	5.05%	1.13	1.17	1.12	AA+ Aaa AA+
91282CAM3	2,750,000.00	UNITED STATES TREASURY	0.250%	09/30/2025		2,592,947.50	1,728.14	2,594,675.64	0.99%	4.99%	0.99	1.25	1.22	AA+ Aaa AA+
13063D2T4	5,000,000.00	CALIFORNIA STATE	5.500%	10/01/2025		5,009,500.00	68,750.00	5,078,250.00	4.24%	5.33%	1.94	1.25	1.19	AA- Aa2 AA
91282CAT8	2,500,000.00	UNITED STATES TREASURY	0.250%	10/31/2025		2,349,525.00	1,052.99	2,350,577.99	0.98%	4.95%	0.90	1.34	1.31	AA+ Aaa AA+
3130ATUC9	2,500,000.00	FEDERAL HOME LOAN BANKS	4.500%	12/12/2025		2,485,500.00	5,937.50	2,491,437.50	3.86%	4.92%	0.95	1.45	1.39	AA+ Aaa AA+

Holdings by Maturity & Ratings

City of Lacey | Total Aggregate Portfolio

June 30, 2024

Cusip	Par Amount	Security	Coupon Rate	Maturity Date	Call Date	Market Value	Accrued	Market Value + Accrued	Book Yield	Market Yield	% of Portfolio	Years to Maturity	Eff Duration	S&P, Moody, Fitch
92826CAD4	2,500,000.00	VISA INC	3.150%	12/14/2025	09/14/2025	2,431,325.00	3,718.75	2,435,043.75	4.30%	5.12%	0.93	1.46	1.40	AA- Aa3 NA
3133EN6A3	5,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	4.000%	01/13/2026		4,928,900.00	93,333.33	5,022,233.33	4.04%	4.97%	1.92	1.54	1.45	AA+ Aaa AA+
91282CBH3	2,500,000.00	UNITED STATES TREASURY	0.375%	01/31/2026		2,329,975.00	3,914.84	2,333,889.84	1.04%	4.87%	0.89	1.59	1.55	AA+ Aaa AA+
91282CBQ3	2,500,000.00	UNITED STATES TREASURY	0.500%	02/28/2026		2,327,925.00	4,177.99	2,332,102.99	1.10%	4.83%	0.89	1.67	1.63	AA+ Aaa AA+
3130AUU36	3,000,000.00	FEDERAL HOME LOAN BANKS	4.125%	03/13/2026		2,964,930.00	37,125.00	3,002,055.00	4.80%	4.84%	1.15	1.70	1.61	AA+ Aaa AA+
3133EPHH1	3,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	4.000%	04/28/2026		2,956,290.00	21,000.00	2,977,290.00	3.96%	4.84%	1.14	1.83	1.73	AA+ Aaa AA+
91282CBW0	2,500,000.00	UNITED STATES TREASURY	0.750%	04/30/2026		2,325,200.00	3,158.97	2,328,358.97	1.09%	4.76%	0.89	1.83	1.79	AA+ Aaa AA+
91282CCF6	2,500,000.00	UNITED STATES TREASURY	0.750%	05/31/2026		2,318,450.00	1,588.11	2,320,038.11	1.15%	4.74%	0.89	1.92	1.87	AA+ Aaa AA+
3133EPNG6	3,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	4.375%	06/23/2026		2,978,820.00	2,916.67	2,981,736.67	4.39%	4.75%	1.14	1.98	1.88	AA+ Aaa AA+
91282CCP4	2,500,000.00	UNITED STATES TREASURY	0.625%	07/31/2026		2,299,800.00	6,524.73	2,306,324.73	1.13%	4.69%	0.88	2.08	2.03	AA+ Aaa AA+
91282CCW9	2,500,000.00	UNITED STATES TREASURY	0.750%	08/31/2026		2,299,225.00	6,266.98	2,305,491.98	1.18%	4.68%	0.88	2.17	2.10	AA+ Aaa AA+
037833DN7	1,000,000.00	APPLE INC	2.050%	09/11/2026	07/11/2026	940,090.00	6,263.89	946,353.89	3.33%	4.95%	0.36	2.20	2.09	AA+ Aaa NA
91282CCZ2	4,000,000.00	UNITED STATES TREASURY	0.875%	09/30/2026		3,681,400.00	8,797.81	3,690,197.81	2.20%	4.63%	1.41	2.25	2.18	AA+ Aaa AA+
61690U7W4	2,000,000.00	MORGAN STANLEY BANK NA	5.882%	10/30/2026	09/30/2026	2,024,680.00	19,933.44	2,044,613.44	5.73%	5.29%	0.78	2.33	2.07	A+ Aa3 AA-

Holdings by Maturity & Ratings

City of Lacey | Total Aggregate Portfolio

June 30, 2024

Cusip	Par Amount	Security	Coupon Rate	Maturity Date	Call Date	Market Value	Accrued	Market Value + Accrued	Book Yield	Market Yield	% of Portfolio	Years to Maturity	Eff Duration	S&P, Moody, Fitch
912828YQ7	1,500,000.00	UNITED STATES TREASURY	1.625%	10/31/2026		1,400,805.00	4,106.66	1,404,911.66	2.58%	4.64%	0.54	2.34	2.25	AA+ Aaa AA+
91282CDK4	2,000,000.00	UNITED STATES TREASURY	1.250%	11/30/2026		1,847,120.00	2,117.49	1,849,237.49	1.23%	4.62%	0.71	2.42	2.34	AA+ Aaa AA+
3130AQF65	5,000,000.00	FEDERAL HOME LOAN BANKS	1.250%	12/21/2026		4,603,900.00	1,736.11	4,605,636.11	4.52%	4.67%	1.76	2.48	2.39	AA+ Aaa AA+
912828Z78	2,000,000.00	UNITED STATES TREASURY	1.500%	01/31/2027		1,850,940.00	12,527.47	1,863,467.47	2.57%	4.58%	0.71	2.59	2.48	AA+ Aaa AA+
3133EP4U6	4,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	4.375%	03/08/2027		3,978,640.00	54,930.56	4,033,570.56	4.51%	4.59%	1.54	2.69	2.48	AA+ Aaa AA+
24422EWD7	1,500,000.00	JOHN DEERE CAPITAL CORP	2.350%	03/08/2027		1,402,635.00	11,064.58	1,413,699.58	3.02%	4.95%	0.54	2.69	2.54	A A1 A+
023135CF1	3,500,000.00	AMAZON.COM INC	3.300%	04/13/2027	03/13/2027	3,356,290.00	25,025.00	3,381,315.00	4.89%	4.89%	1.29	2.79	2.59	AA A1 AA-
91282CET4	2,700,000.00	UNITED STATES TREASURY	2.625%	05/31/2027		2,560,572.00	6,003.07	2,566,575.07	3.34%	4.53%	0.98	2.92	2.76	AA+ Aaa AA+
3130ASGU7	2,000,000.00	FEDERAL HOME LOAN BANKS	3.500%	06/11/2027		1,938,120.00	3,888.89	1,942,008.89	3.15%	4.63%	0.74	2.95	2.76	AA+ Aaa AA+
64966QZY9	3,000,000.00	NEW YORK CITY	1.396%	08/01/2027		2,697,030.00	17,450.00	2,714,480.00	5.30%	4.96%	1.04	3.09	2.94	AA Aa2 NA
70914PW65	2,500,000.00	PENNSYLVANIA (COMMONWEALTH OF)	1.450%	08/01/2027		2,262,300.00	15,104.17	2,277,404.17	4.32%	4.80%	0.87	3.09	2.94	A+ Aa3 AA
045167FP3	3,500,000.00	ASIAN DEVELOPMENT BANK	3.125%	08/20/2027		3,349,080.00	39,800.35	3,388,880.35	4.52%	4.61%	1.30	3.14	2.92	AAA Aaa AAA
3130AT7E1	3,000,000.00	FEDERAL HOME LOAN BANKS	3.250%	09/10/2027		2,877,600.00	30,062.50	2,907,662.50	3.35%	4.64%	1.11	3.20	2.96	AA+ Aaa AA+
3133EPYM1	3,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	4.750%	10/13/2027		3,015,180.00	30,875.00	3,046,055.00	4.81%	4.58%	1.17	3.29	2.99	AA+ Aaa AA+

Holdings by Maturity & Ratings

City of Lacey | Total Aggregate Portfolio

June 30, 2024

Cusip	Par Amount	Security	Coupon Rate	Maturity Date	Call Date	Market Value	Accrued	Market Value + Accrued	Book Yield	Market Yield	% of Portfolio	Years to Maturity	Eff Duration	S&P, Moody, Fitch
3130ATUS4	5,000,000.00	FEDERAL HOME LOAN BANKS	4.250%	12/10/2027		4,955,600.00	12,395.83	4,967,995.83	3.75%	4.53%	1.90	3.45	3.17	AA+ Aaa AA+
4581X0EH7	2,500,000.00	INTER-AMERICAN DEVELOPMENT BANK	4.000%	01/12/2028		2,453,525.00	46,944.44	2,500,469.44	4.14%	4.57%	0.96	3.54	3.20	AAA Aaa NA
3130ATS57	3,000,000.00	FEDERAL HOME LOAN BANKS	4.500%	03/10/2028		2,996,310.00	41,625.00	3,037,935.00	4.42%	4.53%	1.16	3.70	3.33	AA+ Aaa AA+
931142FB4	2,000,000.00	WALMART INC	3.900%	04/15/2028	03/15/2028	1,948,620.00	16,466.67	1,965,086.67	3.97%	4.64%	0.75	3.79	3.42	AA Aa2 AA
91282CHE4	3,000,000.00	UNITED STATES TREASURY	3.625%	05/31/2028		2,914,560.00	9,211.07	2,923,771.07	4.24%	4.42%	1.12	3.92	3.60	AA+ Aaa AA+
3130AVVX7	4,000,000.00	FEDERAL HOME LOAN BANKS	3.750%	06/09/2028		3,910,920.00	9,166.67	3,920,086.67	3.91%	4.37%	1.50	3.94	3.62	AA+ Aaa AA+
3130AWN63	2,000,000.00	FEDERAL HOME LOAN BANKS	4.000%	06/30/2028		1,944,120.00	222.22	1,944,342.22	4.10%	4.77%	0.74	4.00	3.58	AA+ Aaa AA+
459058KT9	4,000,000.00	INTERNATIONAL BANK FOR	3.500%	07/12/2028		3,854,160.00	65,722.22	3,919,882.22	4.56%	4.50%	1.50	4.03	3.65	AAA Aaa NA
419792YT7	3,500,000.00	HAWAII ST	1.145%	08/01/2028		3,044,685.00	16,697.92	3,061,382.92	4.41%	4.68%	1.17	4.09	3.89	AA+ Aa2 AA
762223PB5	1,050,000.00	RHODE ISLAND ST	5.000%	08/01/2028		1,067,314.50	21,875.00	1,089,189.50	4.46%	4.55%	0.42	4.09	3.60	AA Aa2 AA
3133EPUN3	4,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	4.500%	08/28/2028		4,001,920.00	61,500.00	4,063,420.00	4.46%	4.49%	1.56	4.16	3.71	AA+ Aaa AA+
91282CJF9	4,500,000.00	UNITED STATES TREASURY	4.875%	10/31/2028		4,584,015.00	36,959.92	4,620,974.92	4.55%	4.40%	1.77	4.34	3.85	AA+ Aaa AA+
3130AXQK7	3,000,000.00	FEDERAL HOME LOAN BANKS	4.750%	12/08/2028		3,041,520.00	9,104.17	3,050,624.17	4.40%	4.40%	1.17	4.44	3.96	AA+ Aaa AA+
91282CJW2	4,000,000.00	UNITED STATES TREASURY	4.000%	01/31/2029		3,938,440.00	66,813.19	4,005,253.19	4.13%	4.37%	1.53	4.59	4.08	AA+ Aaa AA+

Holdings by Maturity & Ratings

City of Lacey | Total Aggregate Portfolio

June 30, 2024

Cusip	Par Amount	Security	Coupon Rate	Maturity Date	Call Date	Market Value	Accrued	Market Value + Accrued	Book Yield	Market Yield	% of Portfolio	Years to Maturity	Eff Duration	S&P, Moody, Fitch
3130AVBD3	3,995,000.00	FEDERAL HOME LOAN BANKS	4.500%	03/09/2029		4,011,779.00	55,930.00	4,067,709.00	4.23%	4.40%	1.56	4.69	4.14	AA+ Aaa AA+
3133ERAK7	4,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	4.375%	04/10/2029		3,996,920.00	39,375.00	4,036,295.00	4.63%	4.39%	1.54	4.78	4.23	AA+ Aaa AA+
Total	**266,053,069.72**		**3.255%**			**259,871,702.72**	**1,421,634.49**	**261,293,337.21**	**3.67%**	**4.80%**	**100.00**	**1.73**	**1.60**	

This report is for general informational purposes only and is not intended to provide specific advice or recommendations. Government Portfolio Advisors (GPA) is an investment advisor registered with the Securities and Exchange Commission and is required to maintain a written disclosure statement of our background and business experience.

Questions About an Account: GPA's monthly & quarterly reports are intended to detail the investment advisory activity managed by GPA. The custodial bank maintains the control of assets and settles all investment transactions. The custodial statement is the official record of security and cash holdings and transactions. GPA recognizes that clients may use these reports to facilitate record keeping and that the custodial bank statement and the GPA report should be reconciled, and differences documented.

Trade Date versus Settlement Date: Many custodial banks use settlement date basis and post coupons or maturities on the following business days when they occur on weekend. These items may result in the need to reconcile due to a timing difference. GPA reports are on a trade date basis in accordance with GIPS performance standards. GPA can provide all account settings to support the reason for any variance.

Bank Deposits and Pooled Investment Funds Held in Liquidity Accounts Away from the Custodial Bank are Referred to as Line Item Securities: GPA relies on the information provided by clients when reporting pool balances, bank balances and other assets that are not held at the client's custodial bank. GPA does not guarantee the accuracy of information received from third parties. Balances cannot be adjusted once submitted however corrective transactions can be entered as adjustments in the following months activity. Assets held outside the custodial bank that are reported to GPA are included in GPA's oversight compliance reporting and strategic plan.

Account Control: GPA does not have the authority to withdraw or deposit funds from or to any client's custodial account. Clients retain responsibility for the deposit and withdrawal of funds to the custodial account. Our clients retain responsibility for their internal accounting policies, implementing and enforcing internal controls and generating ledger entries or otherwise recording transactions.

Custodial Bank Interface: Our contract provides for the ability for GPA to interface into our client's custodial bank to reconcile transactions, maturities and coupon payments. The GPA client portal will be available to all clients to access this information directly at any time.

Market Price: Generally, GPA has set all securities market pricing to match custodial bank pricing. There may be certain securities that will require pricing override due to inaccurate custodial bank pricing that will otherwise distort portfolio performance returns. GPA may utilize Refinitiv pricing source for commercial paper, discount notes and supranational bonds when custodial bank pricing does not reflect current market levels. The pricing variances are obvious when market yields are distorted from the current market levels.

Performance Calculation: Historical returns are presented as time-weighted total return values and are presented gross and net of fees.

Amortized Cost: The original cost on the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discounts or premiums are amortized on a straight-line basis on all securities. This can be changed at the client's request.

Callable Securities: Securities subject to redemption in whole or in part prior to the stated final maturity at the discretion of the security's issuer are referred to as "callable". Certain call dates may not show up on the report if the call date has passed or if the security is continuously callable until maturity date. Bonds purchased at a premium will be amortized to the next call date while all other callable securities will be amortized to maturity. If the bond is amortized to the call date, amortization will be reflected to that date and once the call date passes, the bond will be fully amortized.

Duration: The duration is the effective duration. Duration on callable securities is based on the probability of the security being called given market rates and security characteristics.

Benchmark Duration: The benchmark duration is based on the duration of the stated benchmark that is assigned to each account.

Rating: Information provided for ratings is based upon a good faith inquiry of selected sources, but its accuracy and completeness cannot be guaranteed.

Coupon Payments and Maturities on Weekends: On occasion, coupon payments and maturities occur on a weekend or holiday. GPA's report settings are on the accrual basis so the coupon postings and maturities will be accounted for in the period earned. The bank may be set at a cash basis, which may result in a reconciliation variance.

Cash and Cash Equivalents: GPA has defined cash and cash equivalents to be cash, bank deposits, LGIP pools and repurchase agreements. This may vary from your custodial bank which typically defines cash and equivalents as all securities that mature under 90 days. Check with your custodial bank to understand their methodology.

Account Settings: GPA has the portfolio settings at the lot level, if a security is sold our setting will remove the lowest cost security first. First-in-first-out (FIFO) settings are available at the client's request.

Historical Numbers: Data was transferred from GPA's legacy system, however, variances may exist from the data received due to a change of settings on Clearwater. GPA is utilizing this information for historical return data with the understanding the accrual settings and pricing sources may differ slightly.

Financial Situation: In order to better serve you, GPA should be promptly notified of any material change in your investment objective or financial situation.

No Guarantee: The securities in the portfolio are not guaranteed or otherwise protected by GPA, the FDIC (except for non-negotiable certificates of deposit) or any government agency. Investment in securities involves risks, including the possible loss of the amount invested.

GPA GOVERNMENT PORTFOLIO ADVISORS

LACEY CITY COUNCIL WORKSESSION
August 13, 2024

SUBJECT: **2024 Mid-Year Financial Report**

RECOMMENDATION: **Review Mid-Year Financial Report**

STAFF CONTACT: Rick Walk, City Manager RW
Troy Woo, Finance Director TW

ORIGINATED BY: Finance Department

ATTACHMENTS: 1. Expenditure and Revenue Reports for the Quarter Ending June 30, 2024

FISCAL NOTE:

WORK PLAN GOAL AND STRATEGY:

PRIOR REVIEW:

BACKGROUND

The 2024 Mid-Year Financial Report has been completed. This report focuses on the General Fund. The revenue and expenditure summaries are attached.

GENERAL FUND EXPENDITURES

As of June 30, 2024, total General Fund Expenditures were $51,672,070 or 53.6 percent of the amended 2024 Budget. This is a total increase of $22,444,433 or 76.8 percent compared to the mid-year 2023 expenditure level. Expenditures on June 30, 2023, were 40.7 percent of the total 2023 General Fund Budget. The 2024 increase is primarily related to significantly higher one-time transfers for the New Police Station project and significant increases to labor costs. These increases are considered by the 2024 Amended Budget.

On June 30th, $19.1 million of General Fund reserves including State and Local Fiscal Recovery Funds (American Rescue Plan Act) were transferred to the Building Improvement Fund to fund the expected 2024 New Police Station and Training Facility construction.

Through mid-year, General Fund labor costs have increased $1.9 million. A combination of higher than historical cost of living adjustment, authorized position increases, and lower vacancy rates are causing the significant increases. $3.2 million of higher labor costs were included in the 2024 Budget.

Although all mid-year expenditure categories show variances from the previous year, only the most significant variances are described below.

- Contracted Services expenditures are $312,815 higher at mid-year. Public defense costs increased $97,506 and Jail services increased $195,780.

- The City Manager Department experienced an increase of $246,644 due to increases to salaries and benefits. The department has been fully staffed and added the Social Services Coordinator position.

- The Human Resources Department's expenditures increased $170,975 due to cost of labor increases and consultant services related to the development of the City's comprehensive emergency management plan.

- A $113,222 decrease occurred in the Social Services Department through the second quarter of 2024. The decrease is related to timing differences for payments related to the Regional Housing Council and the Mobile Outreach Team.

- The Police Department experienced an increase of $816,816. Salary and benefits increased $650,061. Equipment Rental and Information Services costs increased $67,026 in conjunction with the growing workforce.

- Public Works – Engineering first half expenditures increased $151,377 due to labor cost increases.

- A $123,386 decrease was experienced by the Public Works – Facilities Maintenance due to a reduction in major facility repairs.

- An increase of $128,614 occurred in the Public Works - Water Resources Department due to salary and benefits cost increases.

- Parks, Culture, and Recreation experienced a $215,429 first half increase mostly due to labor cost increases and recreation professional services.

- The Criminal Justice Fund's expenditures increased $1,713,449 due to the aforementioned one-time $1,600,000 capital transfer for the police station project.

Additional details are provided in the attached expenditure summaries for the General Fund departments and other funds.

GENERAL FUND REVENUES

As of June 30, 2024, total General Fund Revenues were $36,578,352 or 37.9 percent of the amended budget. Last year at this same time, revenues were 52.2 percent of budget. Mid-year General Fund revenues decreased $915,769 compared to the previous year. The Current Expense Fund's revenues decreased $2,064,769. The most notable decreases are related to the one-time 2023 grant proceeds related to the $1.0 million Small Business Administration grant to expend the Lacey MakerSpace and the $581,617 2023 Veterans Affairs reimbursement for the tenant improvements to the U.S. Veteran Affairs Outstation Center. Reported interest earnings also impacted the decrease due to an accounting adjustment related to market valuation financial reporting requirements.

- Through June 2024, $4,039,458 of property taxes have been collected. This is equal to 49.3 percent of the annual property tax budget. This is a decrease of $84,624 compared to the previous year. A total $339,529 increase was expected for all of 2024 due to a combination of the one percent increase, new construction credit, and refund levy. The decrease is related to timing differences from continuing slowdown to the housing market. Property taxes are paid and prorated at the sales closing, which resulted in a higher-than-normal amount of property taxes paid prior to the due date during 2022 and early 2023, but now returning to lower transaction levels in 2024 year-to-date.

- 2024 sales tax receipts totaled $8,012,147 at the end of June. This is $276,721 or 3.6 percent higher than last year. It should be noted the sales taxes revenues reported in the June 30, 2024 Revenue Report use the cash basis, which recognizes the revenue when receipted. For financial reporting purposes, the first two 2024 sales tax receipts were based on sales that took place in November and December 2023, so those revenues were accrued and reported in the City's 2023 annual comprehensive financial report. Adjusting for this accrual, sales tax collections at mid-year are $77,307 or 1.6 percent higher than 2023. When looking past mid-year, adjusting for the accrual, sales tax collections through July are $72,927 or 1.1 percent lower than through July 2023.

  The following table shows the year-to-date top 20 sales tax sources.

Category	Year-To-Date This Year	Year-To-Date Last Year	% Chg	Last 12 Months
General Merchandise Retailers	$ 1,298,306	$ 1,229,721	5.6	$ 2,568,755
Sporting Goods, Hobby, Musical Instrument, Books	921,796	923,154	(0.1)	1,846,169
Construction of Buildings	799,405	780,707	2.4	1,762,631
Food Services and Drinking Places	787,652	751,520	4.8	1,615,896
Specialty Trade Contractors	503,603	430,423	17.0	1,066,276
Building Material and Garden Equipment and Supplies	434,073	452,495	(4.1)	996,519
Merchant Wholesalers, Durable Goods	308,347	363,862	(15.3)	688,473
Motor Vehicle and Parts Dealers	299,964	269,884	11.1	623,469
Administrative and Support Services	286,169	274,413	4.3	569,750
Furniture, Home Furnishings, Electronics, and Appliances	260,126	266,001	(2.2)	551,674
Professional, Scientific, and Technical Services	245,663	223,603	9.9	517,514
Food and Beverage Retailers	177,937	161,852	9.9	349,021
Repair and Maintenance	163,881	140,643	16.5	335,622
Clothing, Clothing Accessories, Shoe, and Jewelry	170,561	166,703	2.3	332,954
Telecommunications	144,685	139,715	3.6	282,974
Health and Personal Care Retailers	113,340	138,215	(18.0)	246,969
Rental and Leasing Services	111,655	110,893	0.7	241,861
Merchant Wholesalers, Nondurable Goods	111,442	101,723	9.6	238,566
Unclassified	67,800	61,443	10.3	196,700
Couriers and Messengers	94,067	82,217	14.4	180,694
	$ 7,300,471	**$ 7,069,189**		**$ 15,212,484**

The top 20 sources provide 91.9 percent of all sales tax. The City's largest sales tax category, "General Merchandise Stores", experienced a mid-year 5.6 percent increase compared to 2023. The "Food Services and Drinking Places" category continues to experience some of the most significant increases with a 4.8 percent mid-year increase. Overall retail trade increased 1.8 percent during the first half of 2024.

- The General Fund business & occupation (B&O) tax mid-year revenues total $2,163,588 or 61.8 percent of the budget estimate. B&O taxes increased $198,803 or 10.1 percent. It is expected that the increases are coming from the service activities. This is consistent with the national trend of service-related activities growing faster than sales of goods.

- Overall, utility tax collections for the mid-year were $337,694 lower than the previous year. The decrease is a result of the Lane vs. City of Seattle fireflow utility being rescinded effective December 31, 2023. Last year $453,412 of fireflow utility tax was collected. Electric utility tax increased $82,717. Natural gas decreased $190,935 after a mild winter and spring. City-owned utility taxes increased $193,563 after removing the impacts of the fireflow utility tax.

- Non-business license (includes building, mechanical, plumbing, and electrical permits fees) revenues have been collected at 47.7 percent of the budget estimate and decreased $195,280 compared to 2023. Building permits decreased $118,877 or 20.2 percent. It should be noted that building permit fees are still in alignment with the budget projections. Building permit activity can be an indicator of future one-time sales tax increases, ongoing property, and utility tax increases.

- Other grants category reports a $1,072,551 decrease due to the aforementioned $1.0 million 2023 Lacey MakerSpace grant.

- Plan check fees decreased $52,489. This category can also be an indicator of future development.

- Engineering and Water Resources internal services decreased $101,403 during the first half of 2024. This is a result of less labor being assigned to capital project design and support.

- Interest earnings show a decrease of $794,988. However, this includes a year-end market value accounting adjustment decrease of $1,926,478 relating to generally accepted accounting principles investment valuation and a previous year adjustment increase of $765,508. The actual 2024 interest earnings were $1.2 million, which was $353,613 higher than the previous year. Interest earnings have been growing consistent with the Federal Reserve rate increases. According to the latest Federal Reserve meeting commentary, it appears interest rates have peaked. It should be expected that interest earnings will begin to decrease when the Federal Reserve begins to lower rates, which could be as early as September 2024.

- The $493,887 decrease to Other Miscellaneous revenues relates to a late receipt of the $581,617 2023 Federal Department of Veterans Affairs reimbursement for the tenant improvements to the U.S. Veteran Affairs Outstation Center.

UTILITY FUNDS

Mid-year 2024 operating revenues and expenditures for the City's utilities were largely consistent with projections.

Water Utility Maintenance and Operations Fund

Water expenditures were $2.5 million higher in 2024. The annual capital transfer to fund water capital projects was $3.3 million higher in 2024 than 2023. Offsetting the annual capital transfer was a reduction to meter supply expenses. The 2021 and 2022 backorders for meter transmitting units were received in 2023 causing an on-paper reduction of $557,000 in 2024.

Total water revenues were $2.5 million higher than the mid-year of 2023 as a result of water sales increasing $1.2 million and the change to eliminating the requirement to directly receipt capital replacement revenues in the Water Capita fund (+$1.1 million). Revenues related to delinquency enforcement increased $187,000.

Wastewater Utility Maintenance and Operations Fund

Wastewater expenditures decreased $379,211 through mid-year 2024. The decrease is a result of a $1.6 million lower capital improvement transfer. A combination of $673,000 higher

LOTT transfers (+$673,000), capital equipment purchases, repair and maintenance and higher salary and benefits offset the lower annual capital improvement transfer.

Wastewater total revenues were $1.9 million higher than the previous year. Wastewater sales increased $895,000 and LOTT sales increased $1.0 million. Similar to the Water Fund, the requirement to receipt capital replacement revenues in the capital fund was rescinded, so the operating fund's revenues increase $187,000.

Stormwater Maintenance and Operations Fund

Stormwater expenditures were $34,000 higher than the previous year. A $405,000 capital transfer reduction was offset from increases to Water Resources internal service fees and a capital equipment purchase.

Stormwater revenues were $123,000 higher than 2023, as a result of a $214,000 increase to Stormwater sales revenue.

CONCLUSION AND FORECAST

The 2024 Budget was developed under the assumption that economic indicators pointed toward the Federal Reserve cutting interest rates throughout the year. In December 2023, forecasts anticipated that the Federal Reserve would implement three rate cuts during 2024. This outlook was based on several key economic factors. Gross Domestic Product (GDP) growth was projected to decelerate, indicating a slower pace of economic expansion. Although the labor market was expected to be stable, was showing signs of slight cooling. Inflation, which has been a persistent concern, was expected to move closer to the Federal Reserve's target, due the restrictive interest rate policy. These combined factors informed the budget decisions and financial planning for 2024.

Throughout 2024, the Federal Reserve has adhered to a data-driven approach, opting not to adjust interest rates. Inflation has proven to be particularly stubborn, unexpectedly rising in February and March, complicating achieving the target rate. GDP growth projections have been revised upwards, indicating a more robust economic performance than initially anticipated. The labor market has also displayed strength and maintained low unemployment rates. These unexpected economic indicators have prompted the Federal Reserve to remain cautious and responsive to incoming data.

Most recently, economic indicators suggest renewed support for interest rate cuts. The current outlook, however, remains mixed.

- GDP growth is projected to decelerate in the second half of 2024, signaling a slowdown in economic activity. Inflation, while still above the target, is anticipated to continue its decline towards the Federal Reserve's 2.0 percent target.

- The July labor report included an unexpected downturn in the job market. The economy added only 114,000 jobs, falling short of projections by 35%. This significant discrepancy highlights a concerning trend. Compounding the labor concerns, the unemployment rate surged to 4.3%, reflecting emerging signs of pressure within the labor market. These indicators suggest that the challenges foreseen by economists are now materializing, posing potential obstacles for future economic stability and growth.

- Consumer spending is forecasted to slow, influenced by lower excess savings, moderated wage increases, and elevated borrowing costs.

Given the current economic indicators, there is a prevailing market expectation that the Federal Reserve will likely reduce interest rates during the latter part of 2024. This anticipated policy shift reflects an effort to support economic growth and manage inflationary pressures during an evolving economic landscape.

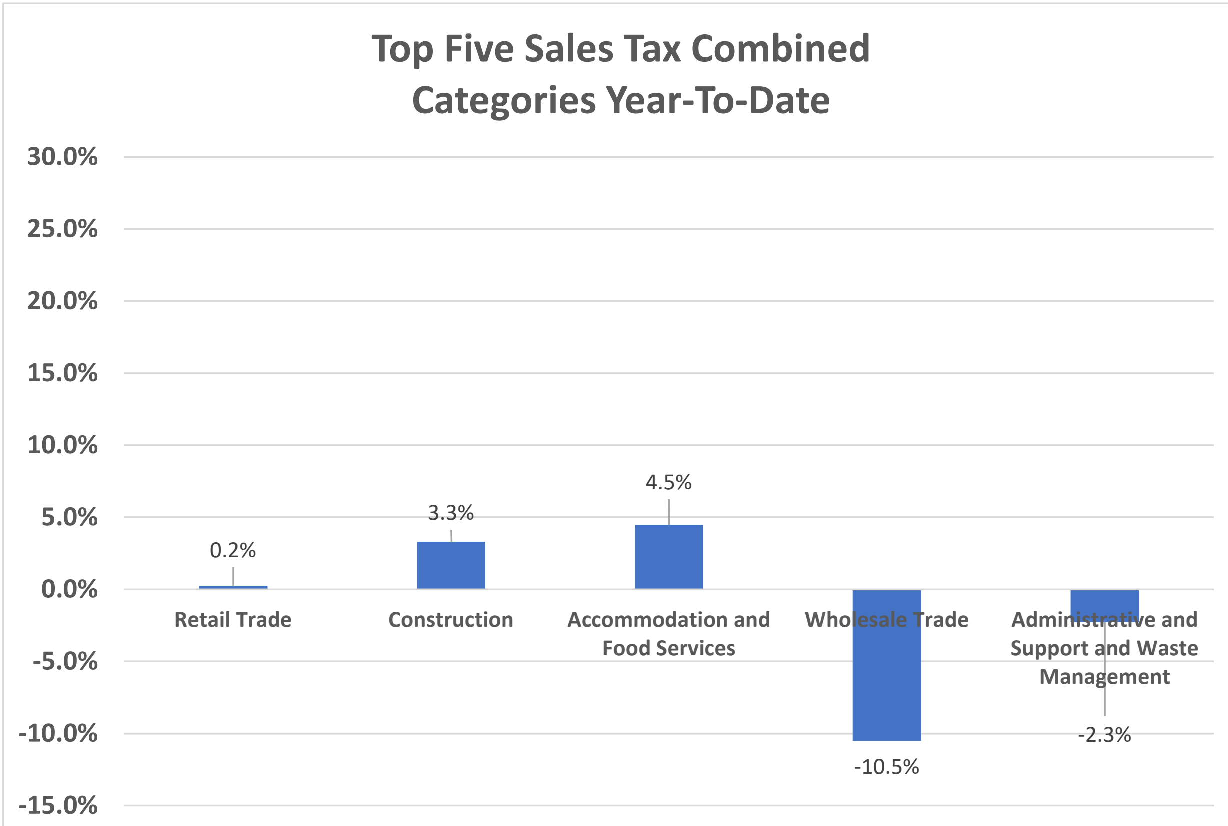
The U.S. economic outlook for 2025 includes slower economic growth and reduced consumer spending. While the labor market is expected to remain stable, certain sectors may experience slower job growth due to shifting economic conditions. It is expected that the Federal Reserve will opt to lower interest rates if inflation continues towards the 2.0 percent target. This potential adjustment in monetary policy will be intended to mitigate the impacts of slower growth and lower consumer spending. The Federal Reserve's response will be closely monitored as it attempts to balance economic growth and maintaining stable prices.

General Fund Revenues

Sales tax, the General Fund’s single largest source of revenue, historically provides about 25 percent of all revenue. Through the mid-year, sales tax collections were 3.6 percent higher than 2023. However, we know that the July 10.6 percent decrease nearly erased the year’s gains. When looking at the accrual accounting based sales tax receipts for 2024, it appears the local economy is in a decline:

Month	**Previous Yr. Chg**
January	8.78%
February	1.37%
March	0.08%
April	-3.21%
May	-10.38%

The July (May activity) year-to-date comparison of the top five combined sales tax categories are illustrated below:



Year-to-date, retail trade is 47.0 percent of all sales tax, by far the largest category. Retail trade is barely showing an increase, due to an 8.0 percent decrease for the current reporting period. The next largest category is construction, making up 17.3 percent of all sales tax and it is potentially one of the most cyclical categories.

The very recent sales tax trend doesn't provide clarity for the 2025 sales tax projections and doesn't provide support for growth to next year's revenues.

Based on the construction sales tax, the 2025 property tax growth from new construction is expected to consistent with recent years, which is higher than the long-term projected levels. Property tax growth from new construction has been strong in recent years, but it is worth noting the impacts have been less due to low levy rates. The following table illustrated the recent property tax growth due to new construction.

Year	Property Tax Increase from Construction
2024	$ 119,170
2023	155,648
2022	213,198
2021	306,555
2020	267,222
2019	208,770
2018	190,971
2017	133,103
2016	124,578
2015	$ 96,242

The 2024 new construction increase was based on $176.0 million of new assessed valuation. For 2025, the preliminary estimate is $150.0 million of new construction will be added to the City's assessed valuation generating an estimated $108,821 of new property taxes.

Projected Labor Costs

The cost of labor constitutes approximately two-thirds of all General Fund operating expenditures.

Police labor contract provisions for wages are expected to be between 3.6 and 3.8 percent. The American Federation of State, Local, and Municipal Employees (AFSCME) expires on December 31, 2024, so wage increases for this large employee group is unknown at this time.

Based on the 2024 labor budget, each 1.0 percent of salary and wages increase is equal to $298,207. During the most recent ten-year period (2014-2023), the total General Fund salary and benefits annual increase averaged 6.0 percent per year.

The preliminary 2025 Association of Washington Cities (AWC) Benefit Trust increase projections for the Regence and Kaiser Permanente plans are between 7.0 and 10.0 percent. Projected increases for Delta Dental are between 0.0 and 4.0 percent and Willamette Dental are between 6.0 and 9.0 percent. There are higher than recent years.

Recent history (2014-2023) indicates that employee benefits in total have increased 5.2 percent annually. Based on the 2024 benefits budget, each 1.0 percent of benefits increase is equal to $97,074.

2025 Recommendations

It has become customary to end the Mid-Year Financial Report by repeating the 2025 Budget Call and Instructions memorandum (dated May 13, 2024) to set the tone for the beginning of the upcoming budget development:

> “According to the latest economic indicators, the Federal Reserve plans to maintain elevated interest rates to control economic growth and advance towards its 2.0 percent inflation target. It is anticipated that relief from these high borrowing costs won't arrive until late 2024. Anticipating significant rises in labor expenses, any expansions to the 2025 Budget will likely be restrained and will prioritize long-term sustainability. Each budget proposal will be carefully considered with this principle in mind.”

Given the economic indicators, most notably sales tax receipts, the conservative tone of the 2025 Budget Call and Instructions memorandum are more warranted.

It is recommended that the 2025 Budget be developed with more caution than recent years due to the current economic indicators and expected high cost to sustain current obligations and service levels. To continue to meet the high level of quality services provided Lacey community members, the City should continue to follow its long history of conservative budgeting policies and practices. This approach has served a prominent role in the City’s financial stability and ability to fund City Council initiatives and project goals.

City of Lacey
Monthly Expenditure Summary
June 2024

Expenditures: **General Fund**	**2023 Amended Budget**	**YTD 6/30/2023 Actual**	**2023 YTD % of Budget**	**2024 Amended Budget**	**YTD 6/30/2024 Actual**	**2024 YTD % of Budget**	**2024-2023 YTD Variance**
City Council	$ 610,711	$ 268,236	43.9%	$ 588,626	$ 293,633	49.9%	$ 25,397
Contracted Services	2,437,172	782,546	32.1%	2,635,541	1,095,361	41.6%	312,815
City Manager	947,361	331,382	35.0%	1,405,290	578,026	41.1%	246,644
Human Resources	1,937,876	656,093	33.9%	1,987,558	827,068	41.6%	170,975
Social Services	5,321,888	392,744	7.4%	4,824,371	279,522	5.8%	(113,222)
Public Affairs/City Clerk	1,219,394	454,079	37.2%	1,218,939	567,400	46.5%	113,320
Finance	2,288,988	1,007,502	44.0%	2,415,890	1,008,557	41.7%	1,055
Legal & Judicial	782,478	371,642	47.5%	818,301	414,078	50.6%	42,436
Common Facilities Overhead	1,612,239	1,080,769	67.0%	1,706,031	1,101,894	64.6%	21,125
Police	13,932,367	6,850,562	49.2%	14,849,249	7,667,378	51.6%	816,816
Public Works - Support SVC	155,637	65,307	42.0%	149,448	65,206	43.6%	(101)
Public Works - Engineering	4,907,884	2,522,694	51.4%	5,389,924	2,674,070	49.6%	151,377
Public Works - Parks Maint.	3,686,499	1,844,553	50.0%	4,146,427	1,945,284	46.9%	100,732
Public Works - Facilities Maint.	1,251,174	567,772	45.4%	1,168,554	444,387	38.0%	(123,386)
Community & Economic Dev.	4,998,483	2,021,674	40.4%	5,003,656	2,077,954	41.5%	56,279
Public Works - Water Resources	2,165,118	1,006,338	46.5%	2,237,550	1,134,952	50.7%	128,614
Parks, Culture, & Recreation	3,376,937	1,330,049	39.4%	3,612,613	1,545,479	42.8%	215,429
Transfers Out	6,750,508	3,477,649	51.5%	27,857,328	21,946,214	78.8%	18,468,565
Total Current Expense Fund:	**$ 58,382,714**	**$ 25,031,591**	**42.88%**	**$82,015,296**	**$ 45,666,463**	**55.68%**	**$ 20,634,871**
					-		
Criminal Justice Fund	$ 3,052,855	$ 634,824	20.8%	$ 3,143,349	$ 2,348,272	74.7%	$ 1,713,449
Public Safety Fund	-	-		1,981,037	86,079	4.3%	86,079
Community Buildings Fund	1,025,781	361,540	35.2%	986,535	372,719	37.8%	11,179
Regional Athletic Complex	1,360,495	709,833	52.2%	1,281,355	727,855	56.8%	18,022
Street Fund	4,545,559	2,067,109	45.5%	4,758,499	2,079,062	43.7%	11,953
Capital Equipment Fund	3,517,995	422,740	12.0%	2,288,157	391,621	17.1%	(31,119)
Total General Fund Expenditures	**$ 71,885,399**	**$ 29,227,637**	**40.66%**	**$ 96,454,228**	**$ 51,672,070**	**53.57%**	**$ 22,444,433**

Expenditures:
Other Funds

Arterial Street Fund	$ 9,944,299	$ 1,240,495	12.5%	$ 26,304,704	$ 13,751,021	52.3%	$ 12,510,526
Transportation Improvement	8,150,000	1,999,562	24.5%	5,340,000	357,210	6.7%	(1,642,352)
Lodging Tax	887,230	385,246	43.4%	600,000	329,576	54.9%	(55,670)
Community Block Grant	479	-	0.0%	769	-	0.0%	-
Hicks Lake Management District	47,793	-	0.0%	48,931	104	0.2%	104
General Obligation Bond	1,270,434	82,625	6.5%	954,262	62,300	6.5%	(20,325)
LID Debt	100,609	-	0.0%	138,134	-	0.0%	-
Building Improvement	4,709,316	1,573,943	33.4%	29,919,717	3,532,151	11.8%	1,958,208
Parks & Open Space	1,169,866	213,913	18.3%	6,479,624	180,643	2.8%	(33,270)
Regional Athletic Complex Capital	4,221,634	695,768	16.5%	4,416,219	2,492,473	56.4%	1,796,704
Water Utility	16,900,441	10,760,644	63.7%	22,537,855	13,273,405	58.9%	2,512,761
Wastewater Utility	23,524,369	11,013,187	46.8%	24,282,717	10,633,977	43.8%	(379,211)
Stormwater Utility	5,472,547	3,747,858	68.5%	5,688,576	3,781,903	66.5%	34,046
Reclaimed Water	1,385	-	0.0%	2,223	-	0.0%	-
Water Capital	19,983,069	6,040,293	30.2%	46,475,835	5,428,894	11.7%	(611,399)
Wastewater Capital	12,838,423	2,662,945	20.7%	18,480,320	3,538,789	19.1%	875,844
Stormwater Capital	2,431,636	171,242	7.0%	2,043,125	147,811	7.2%	(23,431)
Reclaimed Water Capital	26,905	-	0.0%	43,177	-	0.0%	-
Water Debt Service	4,788,294	110,218	2.3%	15,055,324	105,353	0.7%	(4,866)
Wastewater Debt Service	3,196,092	23,347	0.7%	10,656,313	21,274	0.2%	(2,074)
Stormwater Debt Service	2,353,609	18,169	0.8%	2,354,289	17,185	0.7%	(985)
Equipment Rental	4,376,581	1,188,752	27.2%	4,922,482	1,350,750	27.4%	161,998
Information Management	2,967,111	1,102,817	37.2%	3,555,772	1,251,179	35.2%	148,361
Total Expenditures	**$ 201,247,521**	**$ 72,258,662**	**35.91%**	**$ 326,754,596**	**$ 111,928,066**	**34.25%**	**$ 39,669,404**

City of Lacey
Monthly Revenue Summary
June 2024

Revenues: General Fund	2023 Amended Budget	YTD 6/30/2023 YTD Actual	2023 YTD % of Budget	2024 Amended Budget	YTD 6/30/2024 YTD Actual	2024 YTD % of Budget	2024-2023 YTD Variance
Taxes:							
Property	$ 8,082,842	$ 4,124,082	51.0%	$ 8,186,519	$ 4,039,458	49.3%	$ (84,624)
Sales	14,566,341	7,735,425	53.1%	15,710,508	8,012,147	51.0%	276,721
Business & Occupation	3,075,390	1,964,785	63.9%	3,503,777	2,163,588	61.8%	198,803
Admissions	168,000	85,556	50.9%	180,000	66,664	37.0%	(18,893)
Utility - Electric	3,078,839	1,733,323	56.3%	3,255,750	1,816,040	55.8%	82,717
Utility - Natural Gas	1,063,521	849,392	79.9%	1,222,299	658,457	53.9%	(190,935)
Utility - Solid Waste	554,444	284,191	51.3%	598,901	282,344	47.1%	(1,847)
Utility - Telephone	555,349	269,729	48.6%	480,555	301,950	62.8%	32,220
Utility - Water/Sewer/Storm	3,636,822	1,704,697	46.9%	3,003,394	1,444,848	48.1%	(259,849)
Excise - Forest/Leasehold	20,000	11,092	55.5%	20,000	12,854	64.3%	1,762
Gambling	403,832	261,849	64.8%	540,700	310,947	57.5%	49,099
Total Taxes	**$ 35,205,380**	**$ 19,024,122**	**54.04%**	**$ 36,702,403**	**$ 19,109,295**	**52.07%**	**$ 85,174**
Penalties & Interest	$ 5,000	$ 2,894	57.9%	$ 5,000	$ 3,835	76.7%	$ 941
Franchises	734,980	348,535	47.4%	716,838	322,805	45.0%	(25,729)
Licenses & Permits	1,601,438	994,153	62.1%	1,675,123	798,874	47.7%	(195,280)
Inter-Governmental:							
Criminal Justice	$ -	$ 5,851		$ -	$ -		$ (5,851)
Traffic Safety	-	-		-	-		-
Liquor Excise	397,369	204,245	51.4%	429,679	207,244	48.2%	2,999
Liquor Profits	437,514	222,763	50.9%	448,697	224,320	50.0%	1,557
Other State Entitlements	81,622	67,785	83.0%	135,000	75,395	55.8%	7,610
Inter-Gov. Service Charges	286,733	89,169	31.1%	335,678	114,624	34.1%	25,455
Other Grants	3,000	1,126,774	37559.1%	3,000	54,223	1807.4%	(1,072,551)
Total Inter-Governmental	**$ 1,206,238**	**$ 1,716,586**	**142.31%**	**$ 1,352,054**	**$ 675,805**	**49.98%**	**$ (1,040,781)**
Service Charges:							
General Government	$ 6,750	$ 18,911	280.2%	$ 6,750	$ 78,488	1162.8%	$ 59,578
Security of Persons/Property	6,500	-		181,500	81,963	45.2%	81,963
Economic Environment/Plan Checking	578,750	579,703	100.2%	604,500	511,490	84.6%	(68,213)
Culture and Recreation	892,940	270,878	30.3%	852,940	344,962	40.4%	74,083
Total Service Charges	**$ 1,484,940**	**$ 869,492**	**58.55%**	**$ 1,645,690**	**$ 1,016,903**	**61.79%**	**$ 147,411**
Interfund Charges:							
Engineering Services	$ 3,301,232	$ 2,154,761	65.3%	$ 3,472,012	$ 2,053,358	59.1%	$ (101,403)
Park Maintenance	514,250	243,733	47.4%	557,575	313,360	56.2%	69,627
Water Resources	2,645,404	1,096,760	41.5%	2,675,841	1,363,067	50.9%	266,307
Other Interfund Charges	1,505,743	752,861	50.0%	1,548,204	774,102	50.0%	21,241
Total Interfund Charges	**$ 7,966,629**	**$ 4,248,114**	**53.32%**	**$ 8,253,632**	**$ 4,503,887**	**54.57%**	**$ 255,773**
Violations	$ 100,000	$ 50,607	50.6%	$ 100,000	$ 46,676	46.7%	$ (3,931)
Interest Earnings	643,186	2,751,930	427.9%	1,350,508	1,956,942	144.9%	(794,988)
Other Miscellaneous	62,900	771,156	1226.0%	62,900	277,269	440.8%	(493,887)
Contributions	76,000	73,125	96.2%	76,000	73,654	96.9%	529
Financing	-	-		-	-		-
Transfers	48,500	48,500	100.0%	48,500	48,500	100.0%	-
Beginning Cash	9,247,523	-		30,026,648	-		-
Total Current Expense Fund Revenues	**$ 58,382,714**	**$ 30,899,215**	**52.93%**	**$ 82,015,296**	**$ 28,834,447**	**35.16%**	**$ (2,064,769)**
Criminal Justice Fund	$ 3,052,855	$ 828,699	27.1%	$ 3,143,349	$ 835,287	26.6%	$ 6,588
Public Safety Fund	-	-		1,981,037	744,413	37.6%	744,413
Community Buildings Fund	1,025,781	582,621	56.8%	986,535	792,007	80.3%	209,385
Regional Athletic Complex Fund	1,360,495	1,175,684	86.4%	1,281,355	976,548	76.2%	(199,136)
Street Fund	4,545,559	3,789,319	83.4%	4,758,499	4,265,843	89.6%	476,524
Capital Equipment Fund	3,517,995	218,583	6.2%	2,288,157	129,808	5.7%	(88,776)
Total General Fund Revenues	**$ 71,885,399**	**$ 37,494,121**	**52.16%**	**$ 96,454,228**	**$ 36,578,352**	**37.92%**	**$ (915,769)**

Revenues: Other Funds	2023 Amended Budget	YTD 6/30/2023 YTD Actual	2023 YTD % of Budget	2024 Amended Budget	YTD 6/30/2024 YTD Actual	2024 YTD % of Budget	2024-2023 YTD Variance
Arterial Street Fund	$ 9,944,299	$ 4,144,523	41.7%	$ 26,304,704	$ 3,115,003	11.8%	$ (1,029,521)
Transportation Improvement Fund	8,150,000	2,018,988	24.8%	5,340,000	1,961,927	36.7%	(57,061)
Lodging Tax	887,230	276,308	31.1%	600,000	253,684	42.3%	(22,624)
Community Block Grant	479	1,730	361.2%	769	1,142	148.5%	(588)
Hicks Lake Management District	47,793	34,773	72.8%	48,931	33,546	68.6%	(1,227)
General Obligation Bond	1,270,434	944,451	74.3%	954,262	765,077	80.2%	(179,374)
LID Debt	100,609	181,378	180.3%	138,134	141,036	102.1%	(40,342)
Building Improvement	4,709,316	947,149	20.1%	29,919,717	30,868,201	103.2%	29,921,052
Parks & Open Space	1,169,866	29,085	2.5%	6,479,624	42,409	0.7%	13,324
Regional Athletic Complex Capital	4,221,634	995,595	23.6%	4,416,219	996,914	22.6%	1,319
Water Utility	16,900,441	7,402,153	43.8%	22,537,855	9,893,180	43.9%	2,491,027
Wastewater Utility	23,524,369	11,110,907	47.2%	24,282,717	13,023,847	53.6%	1,912,940
Stormwater Utility	5,472,547	2,841,519	51.9%	5,688,576	2,964,519	52.1%	123,000
Reclaimed Water	1,385	5,001	361.1%	2,223	3,301	148.5%	(1,699)
Water Capital	19,983,069	8,849,498	44.3%	46,475,835	10,037,213	21.6%	1,187,715
Wastewater Capital	12,838,423	4,546,468	35.4%	18,480,320	2,022,124	10.9%	(2,524,344)
Stormwater Capital	2,431,636	2,528,909	104.0%	2,043,125	2,105,923	103.1%	(422,986)
Reclaimed Water Capital	26,905	97,156	361.1%	43,177	64,137	148.5%	(33,019)
Water Debt Service	4,788,294	548,243	11.4%	15,055,324	531,762	3.5%	(16,481)
Wastewater Debt Service	3,196,092	15,794	0.5%	10,656,313	11,409	0.1%	(4,385)
Stormwater Debt Service	2,353,609	103,855	4.4%	2,354,289	102,907	4.4%	(948)
Equipment Rental	4,376,581	2,436,395	55.7%	4,922,482	2,429,586	49.4%	(6,809)
Information Management	2,967,111	1,536,158	51.8%	3,555,772	1,760,533	49.5%	224,375
Total Revenues	**$ 201,247,521**	**$ 89,090,159**	**44.27%**	**$ 326,754,596**	**$ 119,707,735**	**36.64%**	**$ 30,617,576**