



FINANCE & ECONOMIC DEVELOPMENT COMMITTEE

TUESDAY, JULY 28, 2020

8:30 A.M.

REMOTE ATTENDANCE

To comply with Governor Inslee's [Proclamation 20-28](#), the Finance Committee Meeting will be conducted remotely, not in person. However, you may view the meeting by watching live through Zoom.

Link: <https://us02web.zoom.us/j/83879399868>

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2020 MID-YEAR FINANCIAL UPDATE

*TROY WOO, DIRECTOR OF FINANCE
(PRESENTATION)*

2020 SECOND QUARTER INVESTMENT

REPORT *TROY WOO, DIRECTOR OF FINANCE
(PRESENTATION)*

FOOD TRUCK COURT

*RICK WALK, DIRECTOR OF COMMUNITY & ECONOMIC DEVELOPMENT
(BRIEFING)*

AMENDMENT TO LMC 1.20.020 WAIVER OF FEES FOR LOW INCOME HOUSING PROJECTS

*RICK WALK, DIRECTOR OF COMMUNITY & ECONOMIC DEVELOPMENT
(PRESENTATION)*



FINANCE & ECONOMIC DEVELOPMENT COMMITTEE

July 28, 2020

SUBJECT: 2020 Mid-Year Financial Report

RECOMMENDATION: Review Mid-Year Financial Report

STAFF CONTACT: Scott Spence, City Manager 
Troy Woo, Finance Director 

ORIGINATED BY: Troy Woo, Finance Department

ATTACHMENTS: 1. [Expenditure and Revenue Reports for the Quarter Ending June 30, 2020](#)

FISCAL NOTE:

PRIOR REVIEW:

BACKGROUND

The 2020 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, 2020, total General Fund Expenditures were \$27,517,791 or 48.5 percent of the amended 2020 Budget. This is a total increase of \$2,372,689 or 9.4 percent compared to the mid-year 2019 total expenditure level. Expenditures at June 30, 2019, were 49.7 percent of the total 2019 General Fund Budget. The majority of the 2020 increase is due to inflationary increases, rising labor force expenditures, and one-time COVID-19 community and economic support. This variance was anticipated by the amended 2020 Budget.

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

- The Human Resources, Social Services, and Public Affairs/City Clerk Departments were restructured in the Adopted 2020 Budget. Prior to 2020 Human Resources, Public Affairs, and City Clerk functions were combined in one department. The 2020 Adopted Budget separated the Human Resources function. The Social Services Department was created in 2020 and reduced budgets in other areas such as Contract Services, Public Affairs, and City Council.
- In addition to the aforementioned budget restructure impact, the Social Services Department expenditure increased \$140,130 due to the start of the Veterans Services Hub building improvements and payment to the United Way for COVID-19 related social services.
- An increase of \$240,517 occurred in the Police Department during the first half of 2020. This is attributed to inflationary increases to labor costs and the addition of new positions (\$219,263) and an increase to equipment rental charges (\$54,069).
- The Public Works – Engineering Department’s expenditures increased \$266,265 compared the mid-year 2019. Contributing to the increase are inflationary increases to labor costs and market salary adjustments.
- A decrease of \$189,496 occurred in the Parks and Recreation Department. Part-time salaries and benefits decreased \$59,234 and professional services related to recreation programs decreased \$79,947. This is result of the COVID-19 “Stay Home, Stay Healthy” orders.
- Transfers Out increased \$446,355. The 2020 Budget includes various one-time transfers for capital expenditures and operating support transfers for transportation. The primary difference from 2019 is the \$750,000 one-time 2020 transfer for the Community Center HVAC system replacement.
- The Community Building Fund experienced a \$142,274 increase compared to mid-year 2019. The most significant increase is related to the Community Center HVAC system replacement.
- A \$1,255,000 increase occurred in the Capital Equipment Fund. The primary differences include the \$1,000,000 Small Business Stabilization Fund, \$175,000 for operational support for the Lacey MakerSpace, and \$70,000 for economic development support for the Thurston Economic Development Council.

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

GENERAL FUND REVENUES

As of June 30, 2020, total General Fund Revenues were \$28,468,844 or 50.1 percent of the amended budget. Last year at this same time, revenues were 56.7 percent of budget. Mid-year General Fund revenues decreased \$221,914 compared to the previous year. The Current Expense Fund revenues decreased \$597,351. The impacts of the COVID-19 public health emergency are illustrated by the mid-year revenue results. Some impacts have yet to be reflected in the revenues and the impacts are expected to be longer term in nature.

- Through June 2020, \$3,177,168 of property taxes have been collected. This is equal to 47.5 percent of the annual property tax budget. This is a decrease of \$296,574 compared to the previous year. To provide emergency relief, the County Treasurer extended the first half property tax deadline to June 1. The date of the mid-year report is beyond the extended deadline, so this could be an indication of the region's financial struggle as result of the COVID-19 public health emergency. An increase was expected for 2020 due to a combination of the one percent increase, new construction credit, and refund levy.
- 2020 sales tax receipts totaled \$6,434,718 at the end of June. This is \$158,304 or 2.5 percent higher than last year. The following table shows the year-to-date top 20 sales tax sources.

	Year-To-Date			Last 12
	<u>This Year</u>	<u>Last Year</u>	<u>% Chg</u>	<u>Months</u>
Construction of Buildings	1,033,190	917,966	12.6	2,164,779
General Merchandise Stores	1,084,327	1,061,554	2.1	2,161,093
Food Services and Drinking Places	514,755	587,906	(12.4)	1,136,587
Building Material and Garden Equipment and Supplies	395,192	362,086	9.1	833,921
Miscellaneous Store Retailers	374,337	371,919	0.6	749,481
Specialty Trade Contractors	327,947	330,063	(0.6)	733,705
Merchant Wholesalers, Durable Goods	330,762	239,088	38.3	612,252
Motor Vehicle and Parts Dealers	179,189	206,057	(13.0)	440,183
Sporting Goods, Hobby, Musical Instrument, and Books	179,098	188,400	(4.9)	388,894
Electronics and Appliance Stores	179,426	164,934	8.8	350,437
Administrative and Support Services	180,765	133,186	35.7	346,222
Professional, Scientific, and Technical Services	174,321	135,405	28.7	307,429
Repair and Maintenance	124,242	139,806	(11.1)	297,977
Food and Beverage Stores	136,493	118,937	14.8	272,591
Clothing and Clothing Accessories Stores	127,010	152,160	(16.5)	271,262
Telecommunications	123,500	154,967	(20.3)	259,701
Health and Personal Care Stores	125,001	144,325	(13.4)	239,492
Rental and Leasing Services	99,915	83,501	19.7	199,487
Heavy and Civil Engineering Construction	74,125	108,779	(31.9)	186,228
Furniture and Home Furnishings Stores	82,021	99,773	(17.8)	185,427
	<u>5,845,616</u>	<u>5,700,814</u>		<u>12,137,149</u>

The top 20 sources provide 91.4 percent of all sales tax. The “Construction of Buildings” category is experiencing significant growth due to commercial and industrial activity in northeast and central Lacey. The increase has elevated the category to the single largest source of sales tax, but it is not expected to remain the largest long-term because construction activity is highly cyclical. Historically the largest sales tax category, “General Merchandise Stores”, experienced a mid-year 2.1 percent increase compared to 2019. It was widely expected sales taxes would be severely impacted by the COVID-19 public health emergency. The City’s largest retailers remained open as essential businesses and new construction has remained very strong during the early stages of the pandemic. Also, it is assumed the region’s State and local government and military employment base was not as negatively impacted during the early stages of the pandemic and the Federal economic support packages are keeping the economy from collapsing. The full picture of Lacey’s sales taxes will not be clear until late July or August when the State’s revenue deadline extensions end.

- The General Fund business & occupation (B&O) tax mid-year revenues total \$1,241,996 or 67.8 percent of the amended budget estimate. B&O taxes decreased \$189,158 or 13.2 percent. As part of Resolution No. 1087, the first quarter B&O tax payments were deferred to July 31. Similar to sales tax, B&O Tax revenues will be clearer after the deferment period ends.
- Overall, utility tax collections for the mid-year were \$46,612 lower than the previous year. With the exception of natural gas, each utility category experienced declines. Normally, utility taxes are considered inelastic, but significant numbers of businesses were closed completely during the early stages of the public health emergency.
- In total, taxes decreased \$538,501 during the first half of 2020. Admissions Tax declined \$51,343 and Gambling Taxes declined \$110,037 due to the closure of those activities during the “Stay Home, Stay Healthy” orders.
- Non-business license (includes building, mechanical, plumbing, and electrical permits fees) revenues have been collected at 68.4 percent of the budget estimate. Building permits decreased \$39,669. Building permit activity can be an indicator of future one-time sales tax increases, ongoing property, and utility tax increases.
- Plan check fees decreased \$486,614. This category can be an indicator of future development.
- Interfund Engineering Services increased \$314,347 during the first half of 2020. These internal services are related to design and construction management of transportation and utility capital projects.
- An increase of \$377,820 occurred in the Other Interfund Charges category. This increase is due to the 2020 implementation of Indirect Cost Recovery charges to the Wastewater and Stormwater utilities.

- Interest earnings experienced significant decreases due to two swift emergency Federal Reserve rate cuts to zero percent in reaction to the COVID-19 public health emergency. The Current Expense Fund's interest earnings decreased \$231,823 compared to the first half of 2019. Fortunately, the recent implementation of a new investment policy and strategy has resulted in the City holding longer-term investments, which preserve a higher than market interest rates.
- The Community Buildings Fund revenues increased \$813,506 due to a one-time \$750,000 transfer for the emergency replacement of the Community Center's HVAC system.
- First half 2020 revenues of the Capital Equipment Fund were \$262,874 lower than 2019. This was the result of lower budgeted capital transfers that were suspended by the out of cycle budget amendment in response to the expected economic decline due to the COVID-19 event.

UTILITY FUNDS

Mid-year 2020 operating expenditures for the City's utilities were consistent with projections. The Water Utility Maintenance and Operations Fund expenditures were \$1,476,709 or 19.1 percent higher in 2020. The increase is due to a \$1.1 million higher capital improvement program transfer and an out of cycle \$113,147 water meter order to ensure adequate stock during an anticipated manufacturing delay. Wastewater Utility Maintenance and Operations Fund expenditures were \$147,084 or 1.9 percent higher in 2020. The majority of the increase is due to the 2020 implementation of indirect recovery cost charges to the Wastewater Division. The Stormwater Maintenance and Operations Fund expenditures were \$814,394 or 29.3 percent lower than the previous year. The annual Stormwater capital improvement program transfer decreased \$724,632 in 2020.

With the exception of water sales, operating revenues for the utilities are meeting projections and consistent with approved rate increases and customer growth. Total water revenues were \$436,966 or 6.3 percent lower than the mid-year of 2019. Water sales decreased \$382,936 or 6.9 percent. Wastewater total revenues were \$272,671 or 3.1 percent higher than the previous year. Wastewater sales increased \$117,704 or 4.1 percent and LOTT sales increased \$214,266 or 3.7 percent. Stormwater revenues were \$132,680 or 6.8 percent higher than 2019, which is consistent with the Stormwater rate increase projection.

CONCLUSION AND FORECAST

The COVID-19 public health emergency brought the record economic expansion to an abrupt end. The first quarter 2020 Gross Domestic Product (GDP) 5.0 percent contraction ended the 128 month record post-war economic recovery period. The second quarter was more severely impacted and expecting a deep negative GDP. Hopefully, the second quarter will be the bottom of the current economic cycle.

After another strong financial start to the year, the City quickly responded to the anticipated negative financial impacts to revenues. The immediate response included actions ranging from part-time staff furloughs to the cancellation of certain one-time capital projects. The City Council took official action with the adoption of an out of cycle budget amendment addressing a projected \$6.7 million reduction to General Fund revenues. The budget amendment included reductions to salaries, benefits, contracted services, operating supplies and services, capital equipment, and capital projects.

The true impacts to revenue collections is still unknown as important economic indicators such as sales and B&O taxes have tax return and payment extensions lasting through the end of July. The late data and unclear future will make projecting the 2021 revenues difficult.

General Fund Revenues

Sales tax, the General Fund's single largest source of revenue, historically provides about 25 percent of all revenue. Sales tax is 2.5 percent higher through the mid-year. Sales tax collection from new construction continues at a level significantly higher than historic levels. The construction of buildings category is 25.2 percent higher than last year. In 2019, the Construction of Buildings category exceeded \$2.0 million for the first time. New construction-generated sales tax is cyclical and high levels of collections should be considered one-time in nature. A more typical year would likely see less than half of the record level experienced in 2019. Careful monitoring of sales tax will continue as the COVID-19 impacts become known.

Based on the strength of construction sales tax, the 2021 property tax growth from new construction is expected to be stronger than historic numbers. Property tax growth from new construction has been strong in recent years. New construction increased property taxes \$267,223 for 2020, \$208,770 for 2019, \$190,651 for 2018, and \$133,103 for 2017. The long-term financial model assumes that new construction additions for 2021 will be strong due to commercial and industrial development. The 2020 new construction increase was based on \$250.9 million of new assessed valuation. For 2021, it is estimated that every \$100.0 million of new construction will generate \$98,305 increase in property tax revenue.

Projected Labor Costs

Labor is the City's most important asset, but it also the most expensive expense category in the General Fund. Historically, labor costs constitute near two-thirds of all General Fund operating expenditures. The cost of labor has increased faster than the rate of inflation.

Using a 3.0 percent overall increase, the 2021 General Fund salary and wages increase could be as high as \$633,493. During the most recent ten-year period (2009-2019), the total General Fund salary and wage cost increase averaged 3.90 percent per year.

Medical benefit increases have been lower since the Association of Washington Cities (AWC) Benefit Trust change to self-insurance on January 1, 2014. However, the 2021 health insurance premium increases are projected to be higher than recent years. The preliminary

2021 rate projections for the Regence plans are not expected to exceed 7.0 percent and Kaiser Permanente plans are not expected to exceed 7.5 percent. The 2020 premium increases for Regence and Kaiser Permanente were zero percent and 1.9 percent, respectively. Delta Dental premiums are not expected to exceed 3.0 percent and no increase is projected for Willamette Dental. No increase is projected for the vision service plan.

Recent history (2009-2019) indicates that employee benefits in total have increased 5.90 percent annually. Assuming the same level of increase for 2021, the projected General Fund increase could be as high as \$457,752.

Continuously Changing COVID-19 Impact, Unknown Economic Impact, and Recovery Curve

During May and early June, states in the nation began their versions of Washington's "Safe Start" order. Across the nation, job creation and consumer spending broke records, so a V-shaped recovery curve was being predicted. V-shaped recoveries involve a sharp rise back to the pre-recessionary peak after a period of sharp decline. Unfortunately, a surge of new COVID-19 cases began in early June and still continues with a recent record setting 75,000 new cases in one day. States are moving at various speeds, but most States are slowing down their reopening drive or re-imposing restrictions. This trend will shift the economy away from the V-shaped recovery curve.

The condition of the economy will be heavily dependent on the magnitude and length of the resurgence of COVID-19 cases, the return stay at home orders, and the population's behaviors and compliance with restrictions and safety measures.

Tens of millions of Americans are receiving benefits from a number of State and Federal programs such as unemployment, Families First Coronavirus Response Act (FFCRA), Paycheck Protection Act, and Coronavirus Aid, Relief, and Economic Security Act (CARES). These programs are providing paid family sick leave, payroll loans, business fixed cost loans, employee retention tax credits, economic injury disaster loans, food assistance programs, special Community Development Block Grant awards, and Coronavirus Relief Funds. These programs have played a vital role in keeping the economy from completely collapsing. However, funding is running out or programs are set to expire. There is encouraging reports the Federal Government is going to offer more financial support, but there are little details available. The economic recovery will need a great deal of support going forward.

As always, staff will continue to monitor the City's economic condition and indicators. The high level of uncertainty will make the 2021 revenue projections very challenging.

2021 Recommendations

In the 2021 Budget Call and Instructions memorandum, the following statement best describes the 2021 Budget development process.

"The 2021 Budget will likely contend with more uncertainty than anyone in the organization has seen during their local government careers."

It is expected the consumption based revenues (sales taxes, B&O taxes, utility taxes, admissions taxes, fees for services) will be negatively impacted throughout the recovery period. There is an assumption some level of safety restrictions will be in place until the COVID-19 virus is risk greatly reduced with vaccinations, effective treatment, and contact tracing.

The 2021 Budget will not be one of expansion. The longer COVID-19 impacts the economy, the greater the likelihood additional budget reductions will be required to maintain the financial integrity of the City.

It is recommended that the 2021 Budget be considered with extreme caution. Lacey's conservative budget approach will be needed to continue its financial success and provide the services its citizen have come to enjoy and expect.

City of Lacey
Monthly Expenditure Summary
June 2020

Expenditures: General Fund	2019 Amended Budget	YTD 6/30/2019 Actual	2019 YTD % of Budget	2020 Amended Budget	YTD 6/30/2020 Actual	2020 YTD % of Budget	2020-2019 YTD Variance
City Council	\$ 517,228	\$ 245,301	47.4%	\$ 432,877	\$ 209,324	48.4%	\$ (35,977)
Contracted Services	2,957,281	968,073	32.7%	2,605,557	965,321	37.0%	(2,752)
City Manager	556,444	248,112	44.6%	504,776	202,149	40.0%	(45,963)
Human Resources	2,336,862	1,014,701	43.4%	1,321,299	505,065	38.2%	(509,637)
Social Services	-	-		3,268,421	307,454	9.4%	307,454
Public Affairs/City Clerk	-	-		972,176	454,797	46.8%	454,797
Finance	1,259,984	610,237	48.4%	1,416,440	631,270	44.6%	21,034
Legal & Judicial	624,994	268,172	42.9%	673,087	330,842	49.2%	62,670
Common Facilities Overhead	1,654,256	919,999	55.6%	1,537,359	886,213	57.6%	(33,787)
Police	9,900,178	4,939,364	49.9%	11,564,500	5,179,881	44.8%	240,517
Public Works - Support SVC	111,912	51,029	45.6%	120,389	53,253	44.2%	2,224
Public Works - Engineering	3,522,577	1,596,394	45.3%	3,832,054	1,862,659	48.6%	266,265
Public Works - Parks Maint.	2,998,329	1,334,845	44.5%	3,016,942	1,262,466	41.8%	(72,379)
Public Works - Facilities Maint.	591,242	282,665	47.8%	652,786	263,433	40.4%	(19,232)
Planning & Community Dev.	2,727,566	1,208,494	44.3%	2,821,466	1,299,270	46.0%	90,776
Public Works - Water Resources	1,612,241	694,132	43.1%	1,641,124	732,839	44.7%	38,707
Parks & Recreation	2,792,373	1,228,456	44.0%	3,074,343	1,038,960	33.8%	(189,496)
Transfers Out	6,295,712	5,797,976	92.1%	6,649,949	6,244,331	93.9%	446,355
Total Current Expense Fund:	\$ 40,459,179	\$ 21,407,950	52.91%	\$46,105,545	\$ 22,429,528	48.65%	\$ 1,021,578
Criminal Justice Fund	\$ 928,012	\$ 433,975	46.8%	\$ 724,856	\$ 441,385	60.9%	\$ 7,409
Community Buildings Fund	597,117	262,712	44.0%	1,358,336	404,986	29.8%	142,274
Regional Athletic Complex	1,157,789	526,676	45.5%	951,441	483,220	50.8%	(43,455)
Street Fund	4,170,390	1,733,080	41.6%	3,864,837	1,722,964	44.6%	(10,117)
Capital Equipment Fund	3,271,496	780,708	23.9%	3,784,926	2,035,708	53.8%	1,255,000
Total General Fund Expenditures	\$ 50,583,983	\$ 25,145,102	49.71%	\$ 56,789,941	\$ 27,517,791	48.46%	\$ 2,372,689
Expenditures: Other Funds							
Arterial Street Fund	\$ 6,255,992	\$ 1,299,913	20.8%	\$ 10,136,027	\$ 2,296,173	22.7%	\$ 996,260
Transportation Improvement	7,013,926	137,819	2.0%	2,989,152	213,197	7.1%	75,378
Lodging Tax	592,000	317,690	53.7%	274,812	124,191	45.2%	(193,499)
Community Block Grant	263	-	0.0%	267	-	0.0%	-
Hicks Lake Management District	52,023	-	0.0%	47,136	-	0.0%	-
General Obligation Bond	1,705,678	167,675	9.8%	1,712,639	146,675	8.6%	(21,000)
LID Debt	108,804	-	0.0%	102,629	-	0.0%	-
Building Improvement	1,703,088	15,999	0.9%	1,935,267	659,622	34.1%	643,623
Parks & Open Space	1,216,024	1,187,966	97.7%	895,068	389,099	43.5%	(798,867)
Regional Athletic Complex Capital	1,719,223	575,472	33.5%	2,428,749	1,351,190	55.6%	775,718
Water Utility	13,209,546	7,713,904	58.4%	14,354,588	9,190,613	64.0%	1,476,709
Wastewater Utility	17,252,238	7,924,113	45.9%	18,109,622	8,071,197	44.6%	147,084
Stormwater Utility	4,176,700	2,782,736	66.6%	3,864,260	1,968,342	50.9%	(814,394)
Reclaimed Water	1,294	-	0.0%	1,313	-	0.0%	-
Water Capital	13,382,258	4,231,280	31.6%	22,436,245	2,822,561	12.6%	(1,408,720)
Wastewater Capital	15,008,809	1,017,711	6.8%	16,471,006	2,279,197	13.8%	1,261,486
Stormwater Capital	1,829,066	169,168	9.2%	938,755	163,997	17.5%	(5,171)
Reclaimed Water Capital	25,152	-	0.0%	25,510	-	0.0%	-
Water Debt Service	4,033,819	126,853	3.1%	4,034,285	123,942	3.1%	(2,911)
Wastewater Debt Service	2,494,031	31,181	1.3%	2,494,812	29,286	1.2%	(1,894)
Stormwater Debt Service	1,752,599	21,535	1.2%	1,752,286	20,946	1.2%	(589)
Equipment Rental	3,019,707	737,499	24.4%	3,298,351	1,170,546	35.5%	433,047
Information Management	1,990,452	834,423	41.9%	2,020,632	872,938	43.2%	38,515
Total Expenditures	\$ 149,126,675	\$ 54,438,037	36.50%	\$ 167,113,352	\$ 59,411,501	35.55%	\$ 4,973,464

City of Lacey
Monthly Revenue Summary
June 2020

Revenues:	2019 Amended Budget	YTD 6/30/2019 YTD Actual	2019 YTD % of Budget	2020 Amended Budget	YTD 6/30/2020 YTD Actual	2020 YTD % of Budget	2020-2019 YTD Variance
<u>General Fund</u>							
<u>Taxes:</u>							
Property	\$ 6,507,103	\$ 3,473,742	53.4%	\$ 6,693,326	\$ 3,177,168	47.5%	\$ (296,574)
Sales	10,200,952	6,276,414	61.5%	8,152,327	6,434,718	78.9%	158,304
Business & Occupation	2,458,981	1,431,154	58.2%	1,830,846	1,241,996	67.8%	(189,158)
Admissions	270,000	114,557	42.4%	112,500	63,213	56.2%	(51,343)
Utility - Electric	2,295,268	1,267,605	55.2%	2,314,531	1,239,650	53.6%	(27,955)
Utility - Natural Gas	759,287	479,408	63.1%	664,116	545,278	82.1%	65,871
Utility - Solid Waste	372,421	227,696	61.1%	534,683	215,223	40.3%	(12,473)
Utility - Telephone	980,653	440,695	44.9%	848,053	389,228	45.9%	(51,467)
Utility - Water/Sewer/Storm	3,085,635	1,419,248	46.0%	3,396,016	1,398,661	41.2%	(20,587)
Excise - Forest/Leasehold	25,000	8,056	32.2%	25,000	4,974	19.9%	(3,082)
Gambling	390,100	216,667	55.5%	220,100	106,630	48.4%	(110,037)
Total Taxes	\$ 27,345,400	\$ 15,355,241	56.15%	\$ 24,791,498	\$ 14,816,740	59.77%	\$ (538,501)
Penalties & Interest	\$ 250	\$ 5	2.0%	\$ 250	\$ 864	345.7%	\$ 859
Franchises	711,340	343,232	48.3%	616,044	340,283	55.2%	(2,948)
Licenses & Permits	1,465,460	1,051,646	71.8%	1,478,703	992,240	67.1%	(59,406)
<u>Inter-Governmental:</u>							
Criminal Justice	\$ -	\$ -		\$ -	\$ -		\$ -
Traffic Safety	5,000	-		5,000	-		-
Liquor Excise	257,874	137,513	53.3%	286,599	147,077	51.3%	9,564
Liquor Profits	409,387	204,569	50.0%	388,114	205,778	53.0%	1,209
Other State Entitlements	58,699	38,805	66.1%	57,935	39,187	67.6%	383
Inter-Gov. Service Charges	239,398	48,438	20.2%	266,055	63,910	24.0%	15,472
Other Grants	33,000	-		2,031,000	10,496	0.5%	10,496
Total Inter-Governmental	\$ 1,003,358	\$ 429,325	42.79%	\$ 3,034,703	\$ 466,448	15.37%	\$ 37,124
<u>Service Charges:</u>							
General Government	\$ 52,100	\$ 36,554	70.2%	\$ 52,100	\$ 13,397	25.7%	\$ (23,157)
Security of Persons/Property	55,500	1,215	2.2%	5,500	167,186	3039.7%	165,971
Economic Environment/Plan Checking	314,500	741,077	235.6%	314,500	254,462	80.9%	(486,614)
Culture and Recreation	959,343	373,687	39.0%	525,112	125,113	23.8%	(248,574)
Total Service Charges	\$ 1,381,443	\$ 1,152,532	83.43%	\$ 897,212	\$ 560,158	62.43%	\$ (592,373)
<u>Interfund Charges:</u>							
Engineering Services	\$ 2,928,340	\$ 1,214,275	41.5%	\$ 3,146,045	\$ 1,528,622	48.6%	\$ 314,347
Park Maintenance	468,918	194,399	41.5%	469,049	170,585	36.4%	(23,814)
Water Resources	2,053,108	881,294	42.9%	2,149,628	952,664	44.3%	71,370
Other Interfund Charges	478,808	239,406	50.0%	1,234,455	617,226	50.0%	377,820
Total Interfund Charges	\$ 5,929,174	\$ 2,529,374	42.66%	\$ 6,999,177	\$ 3,269,098	46.71%	\$ 739,724
Violations	\$ 280,000	\$ 125,261	44.7%	\$ 250,000	\$ 87,790	35.1%	\$ (37,471)
Interest Earnings	551,585	404,104	73.3%	157,622	172,281	109.3%	(231,823)
Other Miscellaneous	37,050	32,877	88.7%	37,050	41,491	112.0%	8,613
Contributions	43,500	72,045	165.6%	556,000	22,002	4.0%	(50,043)
Financing	-	-		-	-		-
Transfers	430,004	430,004	100.0%	558,900	558,900	100.0%	128,896
Beginning Cash	1,280,615	-		6,728,386	-		-
Total Current Expense Fund Revenues	\$ 40,459,179	\$ 21,925,646	54.19%	\$ 46,105,545	\$ 21,328,295	46.26%	\$ (597,351)
Criminal Justice Fund	\$ 928,012	\$ 525,068	56.6%	\$ 724,856	\$ 528,034	72.8%	\$ 2,966
Community Buildings Fund	597,117	429,559	71.9%	1,358,336	1,243,065	91.5%	813,506
Regional Athletic Complex Fund	1,157,789	833,835	72.0%	951,441	547,282	57.5%	(286,553)
Street Fund	4,170,390	3,388,207	81.2%	3,864,837	3,496,600	90.5%	108,393
Capital Equipment Fund	3,271,496	1,588,443	48.6%	3,784,926	1,325,569	35.0%	(262,874)
Total General Fund Revenues	\$ 50,583,983	\$ 28,690,757	56.72%	\$ 56,789,941	\$ 28,468,844	50.13%	\$ (221,914)

Revenues: <u>Other Funds</u>	2019 Amended <u>Budget</u>	YTD 6/30/2019 <u>YTD Actual</u>	2019 YTD % of <u>Budget</u>	2020 Amended <u>Budget</u>	YTD 6/30/2020 <u>YTD Actual</u>	2020 YTD % of <u>Budget</u>	2020-2019 YTD <u>Variance</u>
Arterial Street Fund	\$ 6,255,992	\$ 3,346,310	53.5%	\$ 10,136,027	\$ 2,838,876	28.0%	\$ (507,434)
Transportation Improvement Fund	7,013,926	1,539,401	21.9%	2,989,152	1,523,405	51.0%	(15,996)
Lodging Tax	592,000	219,428	37.1%	274,812	171,867	62.5%	(47,560)
Community Block Grant	263	213	80.9%	267	10,313	3862.6%	10,100
Hicks Lake Management District	52,023	33,382	64.2%	47,136	27,108	57.5%	(6,274)
General Obligation Bond	1,705,678	1,196,651	70.2%	1,712,639	1,144,361	66.8%	(52,289)
LID Debt	108,804	56,193	51.6%	102,629	34,372	33.5%	(21,821)
Building Improvement	1,703,088	156,787	9.2%	1,935,267	106,590	5.5%	(50,196)
Parks & Open Space	1,216,024	540,481	44.4%	895,068	396,965	44.4%	(143,516)
Regional Athletic Complex Capital	1,719,223	985,977	57.4%	2,428,749	753,311	31.0%	(232,665)
Water Utility	13,209,546	6,936,563	52.5%	14,354,588	6,499,597	45.3%	(436,966)
Wastewater Utility	17,252,238	8,822,780	51.1%	18,109,622	9,095,451	50.2%	272,671
Stormwater Utility	4,176,700	1,942,365	46.5%	3,864,260	2,075,045	53.7%	132,680
Reclaimed Water	1,294	1,046	80.8%	1,313	401	30.5%	(645)
Water Capital	13,382,258	5,985,065	44.7%	22,436,245	6,732,584	30.0%	747,519
Wastewater Capital	15,008,809	2,107,712	14.0%	16,471,006	1,420,870	8.6%	(686,843)
Stormwater Capital	1,829,066	1,468,674	80.3%	938,755	897,740	95.6%	(570,934)
Reclaimed Water Capital	25,152	20,322	80.8%	25,510	7,782	30.5%	(12,541)
Water Debt Service	4,033,819	518,086	12.8%	4,034,285	510,580	12.7%	(7,506)
Wastewater Debt Service	2,494,031	2,189	0.1%	2,494,812	840	0.0%	(1,349)
Stormwater Debt Service	1,752,599	102,498	5.8%	1,752,286	101,890	5.8%	(607)
Equipment Rental	3,019,707	1,445,720	47.9%	3,298,351	1,581,281	47.9%	135,561
Information Management	1,990,452	941,075	47.3%	2,020,632	937,058	46.4%	(4,017)
Total Revenues	\$ 149,126,675	\$ 67,059,674	44.97%	\$ 167,113,352	\$ 65,337,131	39.10%	\$ (1,722,543)



FINANCE & ECONOMIC DEVELOPMENT COMMITTEE

July 28, 2020

SUBJECT: Second Quarter 2020 Investment Report

RECOMMENDATION: Review Second Quarter Investment Report.

STAFF CONTACT: Scott Spence, City Manager 
Troy Woo, Finance Department 

ORIGINATED BY: Troy Woo, Finance Department

ATTACHMENTS: 1. [Government Portfolio Advisors Report](#)

FISCAL NOTE:

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 request to extend extra review of the reports to semi-annually and that quarterly reports be presented to City Manager. Per the investment policy, the City Council will have the opportunity to review the report on an annual basis.

The 2020 first quarter report has been redesigned 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, and recommendations for the City's investment strategy.
2. An analysis to ensure the portfolio complies with the City's investment policy in terms of maturity constraints and allocation diversification.

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.

In summary, Lacey's core fund portfolio outperformed the investment strategy benchmarks due to abrupt interest rate decreased due to the COVID-19 public health emergency. The core fund net total return for the quarter was 0.33 percent. The benchmark total return for the period was 0.09 percent.

- The Federal Reserve's updated outlook calls for ultra-low rates for the foreseeable future. The Federal Reserve is expecting the economy to take several years to recover.
- The longest post-war economic recovery is officially over. The first quarter GDP was a negative five percent. The growth estimates for the second quarter are expected to be more negative.
- Book yields are expected to continue to decline as reinvestments take place because of the current rate environment.
- The core fund portfolio yield decreased from 1.91 percent to 0.33 percent.
- At the end of the second quarter and early third quarter, the City was been able to find extra yield in highly rated municipal bonds. This required using liquid funds, so the core funds have been slowing increasing.
 - o June 30. \$500,000 Beaverton School District Bonds (AA+ rated) with a 0.569 percent yield (compared to a Treasury security at 0.23 percent at the time of purchase).
 - o July 9. \$570,000 State of Massachusetts GO Bonds (AA+ rated) with a 0.508 percent yield (compared to a Treasury security at 0.20 percent at the time of purchase).
 - o July 22. \$590,000 Tacoma School District bonds (AA+ rated) with a 0.509 percent yield (compared to a Treasury security at 0.16 percent at the time of purchase).
 - o August 5. \$1.0 million State of Texas transportation bonds (AAA rated) with a 0.41 percent yield (compared to a Treasury security at 0.18 percent at the time of purchase).
- At of the end of the second quarter 2020, the portfolio duration was 1.23 years, which is lower than the benchmark duration of 1.40 years. It is recommended to maintain the target duration, so future investments will look to extend the duration closer to the target. However, the three-year maturities will be approached with caution. This area

of the rate curve is vulnerable to the ongoing economic recovery and COVID-19 progress.

Executive Investment Report

City of Lacey

June 30, 2020

Total Aggregate Portfolio

Market Commentary

Market Yields: Front-end and intermediate yields continued to grind lower in the second quarter as market participants came to terms with a Federal Reserve on hold for the foreseeable future. Yields on the 3-year and 5-year hit all-time lows in late June at 0.174% and 0.289% respectively. The curve steepened modestly as the 10-year yield remained stable while the long-bond sold off approximately 10 basis points. We continue to monitor issuance out of the Treasury, and purchases by the Federal Reserve, to gauge how supply will be digested given the massive borrowing needs to fund continued the various stimulus efforts.

FOMC: The Fed continued their accommodative stance in the second quarter as they added \$1.3 trillion to their balance sheet mostly through continued purchases of US Treasury and Agency mortgage-backed securities. At the conclusion of their June meeting, markets got an updated assessment of the economy and interest rate projections from the Fed. The Fed forecasts an economy shrinking by 6.5% in 2020 with a yearend unemployment rate of 9.3% and does not see the economy returning to 2019 levels until sometime in 2022. Consistent with their economic outlook, the Fed forecast that rates would remain at current levels until sometime after 2022.

Employment and Inflation: The employment market continues to confuse with elevated continuing unemployment claims yet an improving pace of re-hiring in the wake of the massive job losses experienced earlier in the year. As we enter the summer months, the expiration of extra unemployment benefits and Paycheck Protection Program stipulations are likely to add additional noise to the employment picture. Inflation remains muted given the economic backdrop as we have now seen 3 months of negative CPI prints. Like the employment picture, the outlook for inflation remains cloudy with many variables in play surrounding supply, demand, damaged supply chains and the on/off trade war with China. Focus will be on actions from the Fed who has consistently undershot their 2% inflation target over the past 10 years. If Europe or Japan are to be guide, re-establishing trend inflation may prove challenging

Quarterly Yield Change

	09/30/19	12/31/19	03/31/20	06/30/20
3 month bill	1.81	1.54	0.06	0.13
2 year note	1.62	1.57	0.25	0.15
5 year note	1.54	1.69	0.38	0.29
10 year note	1.67	1.92	0.67	0.66

Economists' Survey Projections

	Q3-20	Q4-20	Q1-21	Q2-21
Real GDP	20.0	7.8	5.2	4.0
Core PCE (YOY%)	0.8	0.8	0.8	1.3
Unemployment	10.6	9.5	8.7	7.9

Market Outlook

GDP: It is official, the longest post-war economic recovery ended during the first quarter as GDP came in at a negative 5.0%. Growth estimates for the more severely impacted second quarter remain deeply negative with the Atlanta Fed's GDP Now pointing toward a quarterly decline of 39.5% as of their last reading on June 26th. At this time, the second quarter looks to be the low point of this cycle as economic data has sprung back to life thanks to the reopening of the economy combined with massive fiscal stimulus that put cash in the pockets of consumers and businesses. The pace of the recovery will be dependent on the reopening process, containment of the pandemic and potential changes in consumption and business investment patterns in what is likely to be a fundamentally altered economy going forward.

Fed Funds: Federal Reserve Chair Jerome Powel summed it up best in June when he stated, "We're not thinking about raising rates, we're not even thinking about thinking about raising rates." Consistent with this sentiment, market pricing in the federal funds futures market indicate no rate hikes from the Fed over the next five years

Two-year Yield Expectations: The two-year Treasury yield traded in a very narrow range in the second quarter. Given a Fed firmly on hold, we expect this trend to continue much like we experienced in the recovery years after the 2008-2009 global financial crisis

Portfolio Positioning: With a Fed firmly on hold, GPA is continuing to recommend portfolio durations stay close to their respective benchmark durations. While we are recommending a neutral position in duration, we are growing increasingly cautious beyond the 3-year area of the interest rate curve as yields here remain vulnerable to the ongoing economic recovery and progress toward a vaccine. Spreads have continued to recover yet we still find good value in agency and taxable municipal securities. We still find value in owning corporate securities; however we don't find them a screaming bargain we saw at the end of last quarter.

Economists' Survey Projections for Rates

	Q3-20	Q4-20	Q1-21	Q2-21
Fed Funds	0.25	0.25	0.25	0.3
2 Year	0.27	0.33	0.39	0.48
10 year	0.84	0.94	1.05	1.14

Compliance Report

City of Lacey | Total Aggregate Portfolio



June 30, 2020

Category

Policy Diversification Constraint	Policy Limit	Actual Value*	Status
US Treasury Obligations Maximum % of Holdings	100	18.881	Compliant
US Agency Callable Securities Maximum % of Total Portfolio	25	0.000	Compliant
US Agency FFCB Issuer Concentration	35	16.344	Compliant
US Agency FHLB Issuer Concentration	35	12.569	Compliant
US Agency FHLMC Issuer Concentration	35	0.000	Compliant
US Agency FNMA Issuer Concentration	35	0.000	Compliant
US Agency Obligations - Primary FHLB, FNMA, FHLMC, FFCB Maximum % of Holdings	100	28.913	Compliant
US Agency Obligations - Secondary FICO, FARMER MAC etc. Maximum % of Holdings	10	0.000	Compliant
US Agency Obligations Issuer Concentration - Secondary FICO, FARMER MAC etc.	5	0.000	Compliant
Supranationals - Issuer is ADB, IADB, IBRD, or IFC	0	0.000	Compliant
Supranationals Issuer Concentration	5	0.000	Compliant
Supranationals Maximum % of Holdings	10	0.000	Compliant
Municipal Bonds Issuer Concentration	5	1.090	Compliant
Municipal Bonds Maximum % of Holdings	30	2.635	Compliant
Municipal Bonds: GO only outside of Washington	0	0.000	Compliant
Municipal Issue Directly Internally or Interfund Loans	15	0.000	Compliant
Corporate Notes & Commercial Paper Maximum % of Holdings	25	3.253	Compliant
Corporate Notes & Commercial Paper Single Issuer %	3	1.643	Compliant
Certificates of Deposit Issuer Concentration	5	0.000	Compliant
Certificates of Deposit Maximum % of Holding	20	0.000	Compliant
Banker's Acceptance Issuer Concentration	5	0.000	Compliant
Banker's Acceptance Maximum % of Holdings	10	0.000	Compliant
LGIP Maximum % of Holdings	100	36.931	Compliant
PDPC Bank Deposits Issuer Concentration	100	7.030	Compliant
PDPC Bank Deposits Maximum % of Holdings	20	7.030	Compliant
Policy Maturity Structure Constraint	Policy Limit	Actual %	Status
Maturity Constraints Under 30 days Minimum % of Total Portfolio	10	43.843	Compliant
Maturity Constraints Under 1 year Minimum % of Total Portfolio	25	69.217	Compliant
Maturity Constraints Under 5 years Minimum % of Total Portfolio	100	100.000	Compliant
Policy Maturity Constraint	Policy Limit	Actual Term	Status
US Treasury Maximum Maturity of (years)	5	2.964	Compliant

*Market Value

Compliance Report

City of Lacey | Total Aggregate Portfolio



June 30, 2020

Category			
US Agency Maximum Maturity (years)	5	3.137	Compliant
US Agency Obligations - Secondary Must be rated by Atleast one	0	0.000	Compliant
Municipals Maximum Maturity (years)	5	3.485	Compliant
Corporate Note Portfolio Duration (years)	3	0.630	Compliant
Commercial Paper Days to Final Maturity (days)	270	0.000	Compliant
Weighted Average Maturity (years)	2	0.747	Compliant
Policy Credit Constraint			Status
US Agency Obligations - Secondary Minimum Ratings AA-/Aa3/AA- if rated			Compliant
Supranationals Ratings AA-/Aa3/AA- or better (Rated by 1 NRSRO)			Compliant
Municipal Bonds Ratings Minimum AA-/Aa3/AA- (Rated by 1 NRSRO)			Compliant
Corporate Notes AA-/Aa3/AA- by All If Rated Issuer Concentration (3%)			Compliant
Corporate Notes Foreign Exposure except Canada			Compliant
Corporate Notes Ratings Minimum AA-/Aa3/AA- by All if rated			Compliant
Corporate Notes Single A with Negative Outlook Cannot Purchase			Compliant
Corporate Notes Split AA- to A- Issuer Concentration % (1 must rate AA- and all must rate A-) (2%)			Compliant
Commercial Paper Minimum Long Term Rating AA-/Aa3/AA- (Rated by 1 NRSRO)			Compliant
Commercial Paper Ratings by All A1+/P1 and F1+ (if rated)			Compliant

*Market Value

Strategic Quarterly Update

City of Lacey | Total Aggregate Portfolio



June 30, 2020

Strategic Outlook

- At the conclusion of their June meeting, the Federal Reserve provided an updated outlook that calls for ultra-low rates for the foreseeable future as they see the economy mending slowly over the next several years. To gauge the direction of longer-term rates, markets are currently focused on the supply and demand balance in the bond market where massive issuance needs from the Treasury are met by continued purchases out of the Federal Reserve.
- Corporate, agency, and municipal spreads rebounded strongly in the second quarter but remain above pre-pandemic levels. While risk to the outlook remains, we continue to find value in selectively adding corporate and municipal securities to portfolios to bolster income.
- Economic data improved markedly in May and June as economic reopening led to a surge of activity. Despite the strong performance, the economy remains a long way from a full recovery and continued gains will hinge on progress toward halting the rise in the viral outbreak.

Portfolio Positioning

- Duration ended the period underweighted relative to the strategic target. Upcoming maturities will provide an opportunity to extend back toward the target and diversify maturity profile
- Municipal and corporate credit spreads remain attractive investment opportunities. Account is well-positioned to add to these sectors and pick-up additional income.
- The total portfolio book yield decreased from 1.576 to 1.229.
- The total portfolio unrealized gain/loss ended the quarter at \$1,932,948.
- The core portfolio duration decreased over the quarter from 1.246 last quarter to 1.230 this quarter. The benchmark duration ended the quarter at 1.461.
- Net total return for the core portfolio, which includes change in market value and interest income, was 0.33%. The benchmark total return for the period was 0.09%.

Strategy	03/31/2020	06/30/2020
Effective Duration		
Investment Core	1.246	1.230
Benchmark Duration	1.412	1.461
Total Effective Duration	0.703	0.695

Total Return (Net of Fees)*		
Investment Core	1.91%	0.33%
ICE BofA 0-3 Year US Treasury Index	2.26%	0.09%
Total Portfolio Performance	1.22%	0.25%

*Changes in Market Value include net unrealized and realized gains/losses.

Maturity Total Portfolio		
Average Maturity Total Holdings	0.756	0.752

Book Yield	03/31/2020	06/30/2020
Ending Book Yield		
Investment Core	2.034	1.906
Liquidity	0.990	0.362
Total Book Yield	1.576	1.229

Values	03/31/2020	06/30/2020
Market Value + Accrued		
Investment Core	105,794,214	106,090,251
Liquidity	82,713,434	82,826,896
Total MV + Accrued	188,507,648	188,917,147

Net Unrealized Gain/Loss		
Total Net Unrealized Gain/Loss	2,077,607	1,932,948

Asset Allocation Change over Quarter

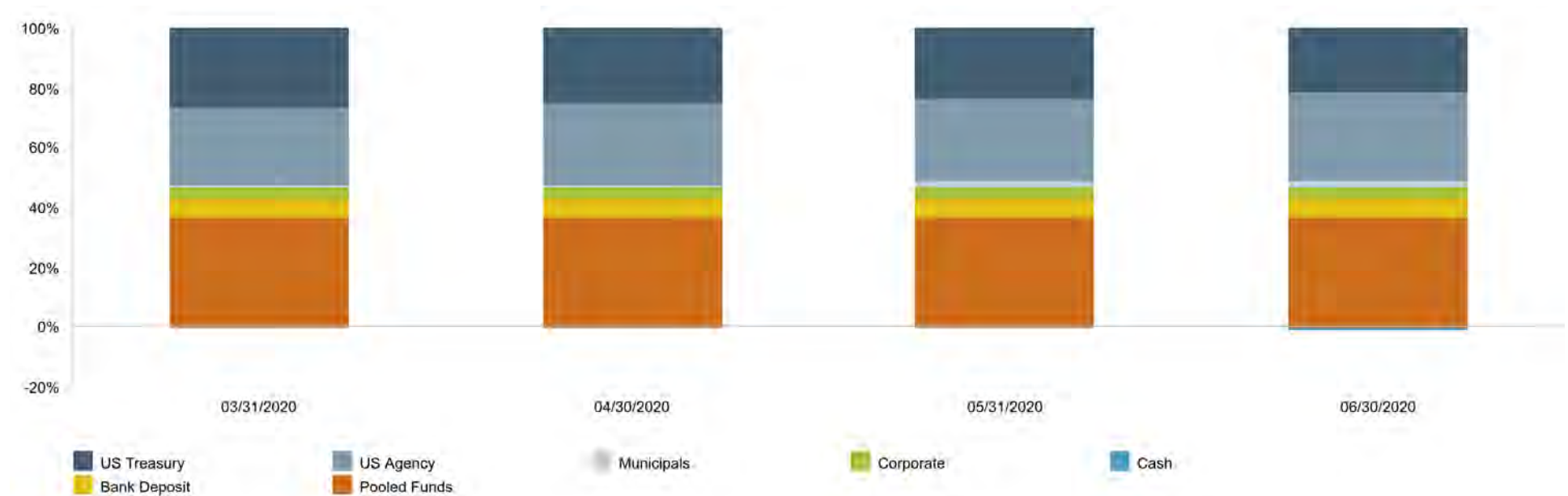
City of Lacey | Total Aggregate Portfolio



June 30, 2020

Asset Allocation Changes

Security Type	03/31/2020		06/30/2020		Change	
	Market Value + Accrued	% of Portfolio	Market Value + Accrued	% of Portfolio	Market Value + Accrued	% of Portfolio
US Treasury	48,985,405.25	25.99%	40,799,786.47	21.60%	(8,185,618.79)	(4.39%)
US Agency	48,636,894.31	25.80%	54,702,200.56	28.96%	6,065,306.25	3.15%
Municipals	2,034,731.11	1.08%	4,977,334.00	2.63%	2,942,602.89	1.56%
Corporate	6,137,182.92	3.26%	6,180,930.42	3.27%	43,747.50	0.02%
Cash	0.00	0.00%	(570,000.00)	(0.30%)	(570,000.00)	(0.30%)
Bank Deposit	13,229,371.78	7.02%	13,245,824.94	7.01%	16,453.16	(0.01%)
Pooled Funds	69,484,062.62	36.86%	69,581,070.56	36.83%	97,007.94	(0.03%)
Total	188,507,647.99	100.00%	188,917,146.94	100.00%	409,498.96	

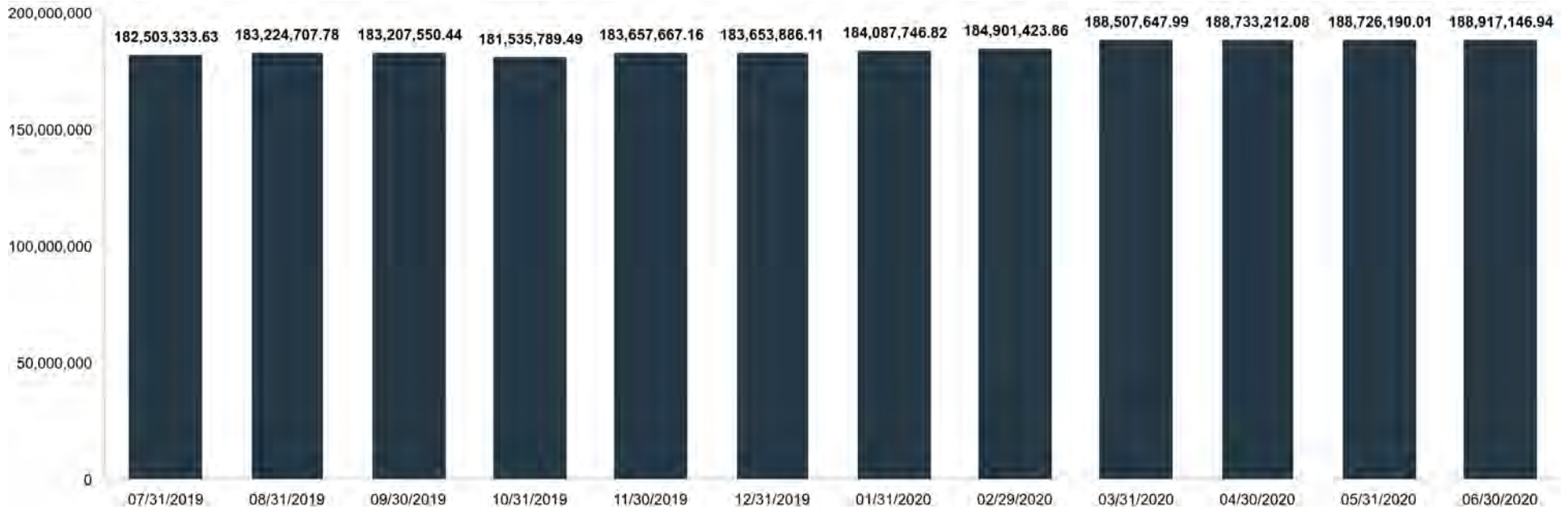


If negative cash balance is showing, it is due to a pending trade payable at the end of period.

Historical Balances

City of Lacey | Total Aggregate Portfolio

Market Value Growth



Market Value and Return

Period Begin	Period End	Market Value + Accrued	Interest Income	Book Yield	Effective Duration	Maturity in Years
07/01/2019	07/31/2019	182,503,334	331,059	2.349	0.808	0.836
08/01/2019	08/31/2019	183,224,708	326,574	2.340	0.802	0.826
09/01/2019	09/30/2019	183,207,550	314,963	2.204	0.755	0.779
10/01/2019	10/31/2019	181,535,789	313,426	2.164	0.761	0.784
11/01/2019	11/30/2019	183,657,667	292,048	2.042	0.708	0.729
12/01/2019	12/31/2019	183,653,886	293,323	1.747	0.709	0.730
01/01/2020	01/31/2020	184,087,747	298,983	1.720	0.726	0.787
02/01/2020	02/29/2020	184,901,424	289,498	1.706	0.742	0.799
03/01/2020	03/31/2020	188,507,648	270,827	1.576	0.703	0.756
04/01/2020	04/30/2020	188,733,212	235,869	1.361	0.708	0.759
05/01/2020	05/31/2020	188,726,190	220,958	1.284	0.677	0.737
06/01/2020	06/30/2020	188,917,147	212,808	1.229	0.695	0.752

Summary Overview

City of Lacey | Total Aggregate Portfolio

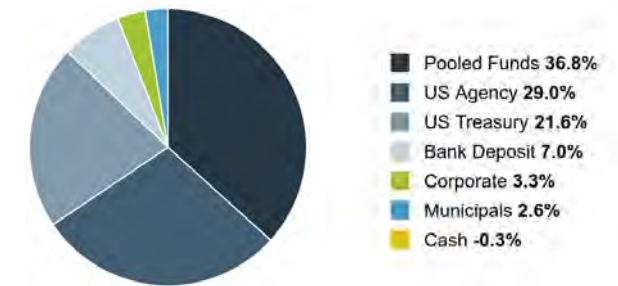


June 30, 2020

Portfolio Characteristics

Metric	Value
Cash and Cash Equivalents	82,256,895.50
Investments	106,660,251.44
Book Yield	1.229
Effective Duration	0.695
Years to Maturity	0.752
Avg Credit Rating	AA+

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	103,190,000.00	103,648,038.11	103,765,273.27	105,580,986.10	1,932,947.99	509,265.34	1.906	1.230	1.461	ICE BofA 0-3 Year US Treasury Index
LACEY-Liquidity	82,826,895.50	82,826,895.50	82,826,895.50	82,826,895.50	0.00	0.00	0.362	0.010	0.093	ICE BofA US 1-Month Treasury Bill Index
Total	186,016,895.50	186,474,933.61	186,592,168.77	188,407,881.60	1,932,947.99	509,265.34	1.229	0.695		

Portfolio Activity

City of Lacey | Total Aggregate Portfolio



June 30, 2020

Accrual Activity Summary

	Quarter to Date	Fiscal Year to Date (01/01/2020)
Beginning Book Value	185,959,977.56	182,549,392.12
Maturities/Calls	(8,000,000.00)	(21,000,000.00)
Purchases	9,021,622.00	25,126,207.89
Sales	0.00	0.00
Change in Cash, Payables, Receivables	(456,538.90)	(138,953.35)
Amortization/Accretion	(50,127.05)	(61,713.05)
Realized Gain (Loss)	0.00	0.00
Ending Book Value	186,474,933.61	186,474,933.61

Fair Market Activity Summary

	Quarter to Date	Fiscal Year to Date (01/01/2020)
Beginning Market Value	188,037,584.40	183,207,698.85
Maturities/Calls	(8,000,000.00)	(21,000,000.00)
Purchases	9,021,622.00	25,126,207.89
Sales	0.00	0.00
Change in Cash, Payables, Receivables	(456,538.90)	(138,953.35)
Amortization/Accretion	(50,127.05)	(61,713.05)
Change in Net Unrealized Gain (Loss)	(144,658.85)	1,274,641.26
Net Realized Gain (Loss)	0.00	0.00
Ending Market Value	188,407,881.60	188,407,881.60

Maturities/Calls	Market Value
Quarter to Date	(8,000,000.00)
Fiscal Year to Date	(21,000,000.00)

Purchases	Market Value
Quarter to Date	9,021,622.00
Fiscal Year to Date	25,126,207.89

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

Return Management-Income Detail

City of Lacey | Total Aggregate Portfolio



June 30, 2020

Accrued Book Return

	Quarter to Date	Fiscal Year to Date (01/01/2020)
Amortization/Accretion	(50,127.05)	(61,713.05)
Interest Earned	669,635.22	1,528,942.46
Realized Gain (Loss)	0.00	0.00
Book Income	619,508.17	1,467,229.41
Average Portfolio Balance	187,783,147.69	186,042,512.31
Book Return for Period	0.332	0.795

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 (01/01/2020)
Market Value Change	(144,658.85)	1,274,641.26
Amortization/Accretion	(50,127.05)	(61,713.05)
Interest Earned	669,635.22	1,528,942.46
Fair Market Earned Income	474,849.32	2,741,870.67
Average Portfolio Balance	187,783,147.69	186,042,512.31
Fair Market Return for Period	0.25%	1.48%

Interest Income

	Quarter to Date	Fiscal Year to Date (01/01/2020)
Beginning Accrued Interest	470,063.59	446,187.26
Coupons Paid	636,806.38	1,547,984.97
Purchased Accrued Interest	6,372.92	82,120.59
Sold Accrued Interest	0.00	0.00
Ending Accrued Interest	509,265.34	509,265.34
Interest Earned	669,635.22	1,528,942.46

Security Type Distribution

City of Lacey | Total Aggregate Portfolio

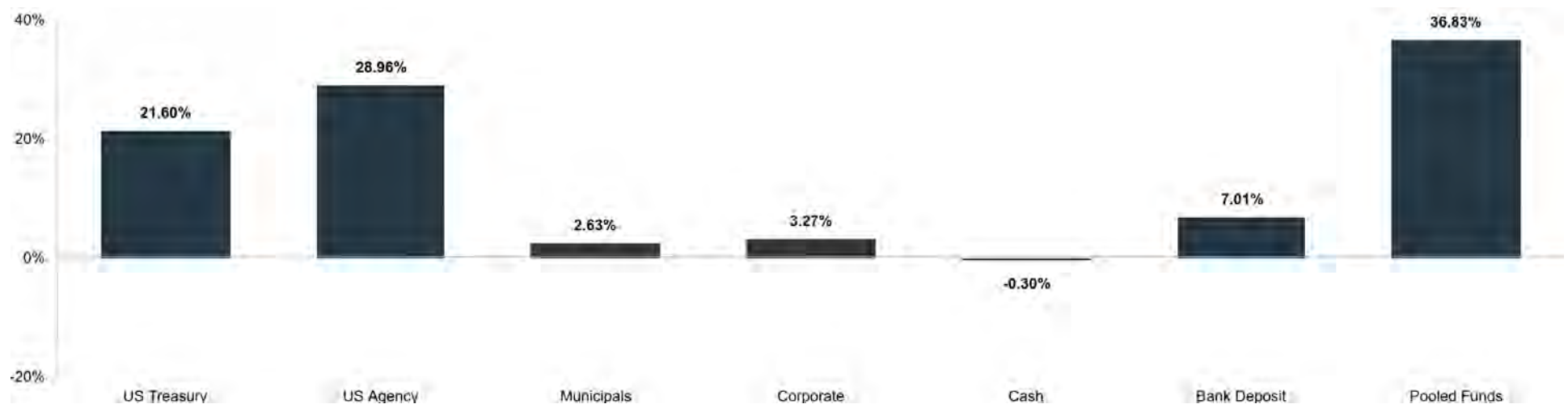


June 30, 2020

Security Type Distribution

Security Type	Par Amount	Book Yield	Market Value + Accrued	% of Market Value + Accrued
US Treasury	40,000,000.00	1.786	40,799,786.47	21.60%
US Agency	53,000,000.00	2.050	54,702,200.56	28.96%
Municipals	4,760,000.00	1.232	4,977,334.00	2.63%
Corporate	6,000,000.00	1.794	6,180,930.42	3.27%
Cash	(570,000.00)	0.000	(570,000.00)	(0.30%)
Bank Deposit	13,245,824.94	0.500	13,245,824.94	7.01%
Pooled Funds	69,581,070.56	0.336	69,581,070.56	36.83%
Total	186,016,895.50	1.229	188,917,146.94	100.00%

Security Type Distribution



Risk Management-Credit/Issuer

City of Lacey | Total Aggregate Portfolio

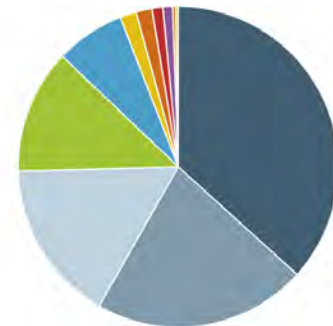


June 30, 2020

Credit Rating S&P/Moody's/Fitch

	Market Value + Accrued	%
S&P		
AA	570,000.00	0.30
AA+	102,966,261.03	54.50
AAA	2,553,990.42	1.35
NA	82,826,895.50	43.84
Moody's		
Aa1	6,186,501.24	3.27
Aaa	99,903,750.21	52.88
NA	82,826,895.50	43.84
Fitch		
AA+	5,183,533.75	2.74
AAA	94,931,987.02	50.25
NA	88,801,626.17	47.01
Total	188,917,146.94	100.00

Issuer Concentration



Risk Management-Maturity/Duration

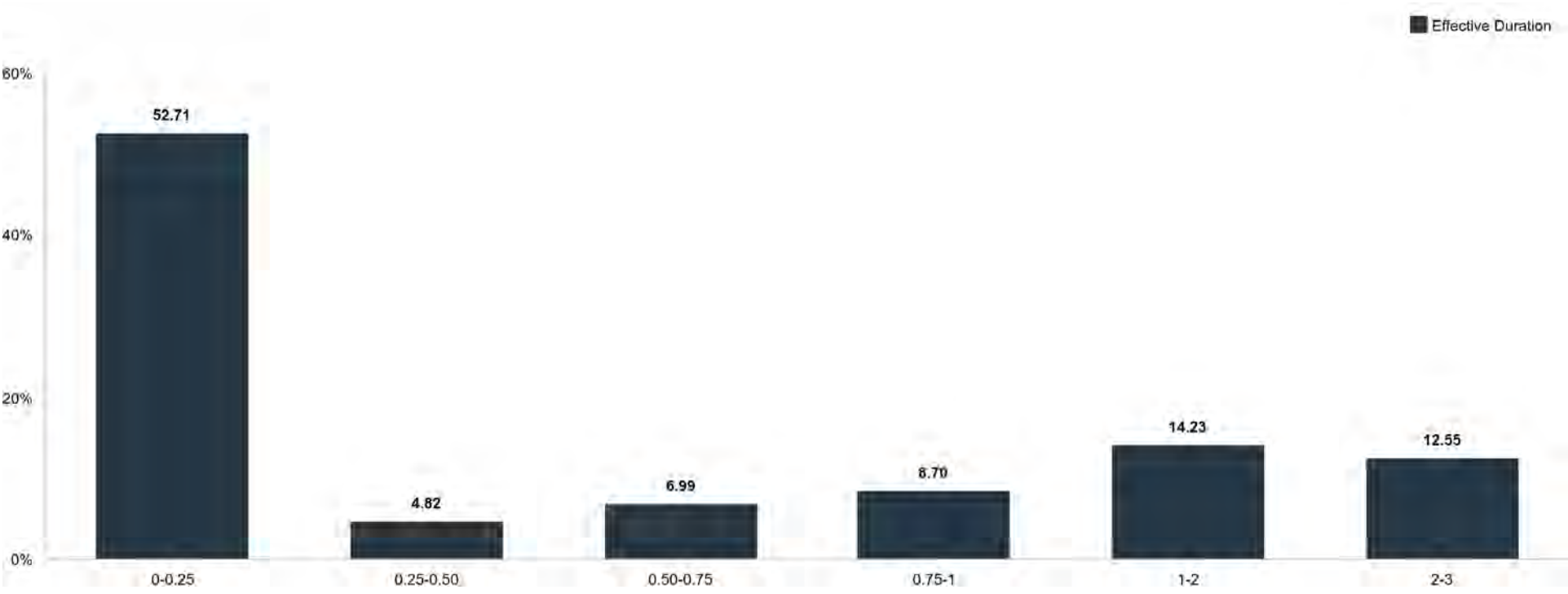
City of Lacey | Total Aggregate Portfolio



June 30, 2020

0.70 Yrs	Effective Duration	0.75 Yrs	Years to Maturity	273	Days to Maturity
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Distribution by Effective Duration



Holdings by Maturity & Ratings



City of Lacey | Total Aggregate Portfolio

June 30, 2020

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
LACEY_COL_DEP	13,245,824.94	COLUMBIA BANK DEPOSIT	0.500	06/30/2020		13,245,824.94	0.00	13,245,824.94	0.500		7.01	0.010	0.010	NA NA NA
CCYUSD	-570,000.00	Payable	0.000	06/30/2020		(570,000.00)	0.00	(570,000.00)	0.000		-0.30	0.000	0.000	AAA Aaa AAA
WA_LGIP	69,581,070.56	WASHINGTON LGIP	0.336	06/30/2020		69,581,070.56	0.00	69,581,070.56	0.336		36.83	0.010	0.010	NA NA NA
912828Y46	5,000,000.00	UNITED STATES TREASURY	2.625	07/31/2020		5,010,100.00	54,807.69	5,064,907.69	1.972	0.250	2.68	0.085	0.085	AA+ Aaa AAA
912828VV9	3,000,000.00	UNITED STATES TREASURY	2.125	08/31/2020		3,009,660.00	21,307.74	3,030,967.74	2.190	0.212	1.60	0.170	0.168	AA+ Aaa AAA
313370US5	4,000,000.00	FEDERAL HOME LOAN BANKS	2.875	09/11/2020		4,020,800.00	35,138.89	4,055,938.89	2.540	0.235	2.15	0.200	0.197	AA+ Aaa AAA
912828WC0	3,000,000.00	UNITED STATES TREASURY	1.750	10/31/2020		3,015,510.00	8,845.11	3,024,355.11	2.223	0.202	1.60	0.337	0.334	AA+ Aaa AAA
3133EJAD1	3,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	2.150	12/23/2020		3,028,500.00	1,433.33	3,029,933.33	2.459	0.171	1.60	0.482	0.480	AA+ Aaa AAA
912828B58	5,000,000.00	UNITED STATES TREASURY	2.125	01/31/2021		5,056,050.00	44,368.13	5,100,418.13	1.919	0.207	2.70	0.589	0.579	AA+ Aaa AAA
037833BS8	3,000,000.00	APPLE INC	2.250	02/23/2021	01/23/2021	3,032,940.00	24,000.00	3,056,940.00	1.535	0.548	1.62	0.652	0.343	AA+ Aa1 NA
3130A0XD7	4,000,000.00	FEDERAL HOME LOAN BANKS	2.375	03/12/2021		4,060,960.00	28,763.89	4,089,723.89	2.636	0.195	2.16	0.698	0.694	AA+ Aaa AAA
9128284B3	4,000,000.00	UNITED STATES TREASURY	2.375	03/15/2021		4,061,720.00	27,880.43	4,089,600.43	1.618	0.197	2.16	0.706	0.703	AA+ Aaa AAA
912828WG1	4,000,000.00	UNITED STATES TREASURY	2.250	04/30/2021		4,068,760.00	15,163.04	4,083,923.04	2.920	0.187	2.16	0.832	0.828	AA+ Aaa AAA
3133EKPS9	5,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	2.125	06/07/2021		5,090,050.00	7,083.33	5,097,133.33	1.954	0.198	2.70	0.936	0.930	AA+ Aaa AAA

Holdings by Maturity & Ratings

City of Lacey | Total Aggregate Portfolio



June 30, 2020

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
313373ZY1	4,000,000.00	FEDERAL HOME LOAN BANKS	3.625	06/11/2021		4,128,640.00	8,055.56	4,136,695.56	2.730	0.224	2.19	0.947	0.937	AA+ Aaa AAA
9128287G9	5,000,000.00	UNITED STATES TREASURY	0.370	07/31/2021		5,009,600.00	3,112.95	5,012,712.95	0.311	0.198	2.65	1.085	0.019	AA+ Aaa AAA
3133EJV8	4,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	2.800	08/02/2021		4,113,480.00	46,355.56	4,159,835.56	2.747	0.191	2.20	1.090	1.068	AA+ Aaa AAA
912828T34	1,000,000.00	UNITED STATES TREASURY	1.125	09/30/2021		1,011,880.00	2,827.87	1,014,707.87	1.649	0.174	0.54	1.252	1.242	AA+ Aaa AAA
9128285F3	2,000,000.00	UNITED STATES TREASURY	2.875	10/15/2021		2,069,460.00	12,096.99	2,081,556.99	2.291	0.183	1.10	1.293	1.270	AA+ Aaa AAA
3133EJ3B3	4,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	2.800	12/17/2021		4,151,480.00	4,355.56	4,155,835.56	2.893	0.208	2.20	1.465	1.442	AA+ Aaa AAA
594918BA1	3,000,000.00	MICROSOFT CORP	2.375	02/12/2022	01/12/2022	3,096,480.00	27,510.42	3,123,990.42	2.046	0.378	1.65	1.621	0.912	AAA Aaa AA+
912828J76	5,000,000.00	UNITED STATES TREASURY	1.750	03/31/2022		5,137,500.00	21,994.54	5,159,494.54	1.547	0.177	2.73	1.750	1.724	AA+ Aaa AAA
68609TMJ4	1,000,000.00	OREGON ST	1.707	05/01/2022		1,022,480.00	2,845.00	1,025,325.00	1.707	0.476	0.54	1.835	1.807	AA+ Aa1 AA+
313379Q69	5,000,000.00	FEDERAL HOME LOAN BANKS	2.125	06/10/2022		5,179,650.00	6,197.92	5,185,847.92	1.914	0.271	2.75	1.945	1.911	AA+ Aaa AAA
3133EKRD0	4,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	1.875	06/14/2022		4,126,120.00	3,541.67	4,129,661.67	1.882	0.258	2.19	1.956	1.926	AA+ Aaa AAA
3133EKPC4	7,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	2.125	09/06/2022		7,282,590.00	47,517.36	7,330,107.36	1.929	0.269	3.88	2.186	2.130	AA+ Aaa AAA
912828M80	3,000,000.00	UNITED STATES TREASURY	2.000	11/30/2022		3,132,060.00	5,081.97	3,137,141.97	1.664	0.175	1.66	2.419	2.368	AA+ Aaa AAA
495260L74	1,690,000.00	KING CNTY WASH SCH DIST NO 414 LAKE WASHINGTON	4.000	12/01/2022		1,841,576.10	6,196.67	1,847,772.77	1.090	0.278	0.98	2.422	2.324	AA+ Aaa NA

Holdings by Maturity & Ratings



City of Lacey | Total Aggregate Portfolio

June 30, 2020

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
313382AX1	6,000,000.00	FEDERAL HOME LOAN BANKS	2.125	03/10/2023		6,290,760.00	39,312.50	6,330,072.50	0.939	0.317	3.35	2.693	2.615	AA+ Aaa AAA
68609TMK1	1,000,000.00	OREGON ST	1.733	05/01/2023		1,031,330.00	2,888.33	1,034,218.33	1.733	0.617	0.55	2.835	2.765	AA+ Aa1 AA+
3133ELG81	3,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	0.300	06/08/2023		3,000,840.00	575.00	3,001,415.00	0.368	0.290	1.59	2.939	2.923	AA+ Aaa AAA
938429V46	500,000.00	WASHINGTON CNTY ORE SCH DIST NO 48J BEAVERTON	0.569	06/15/2023		500,010.00	7.90	500,017.90	0.569	0.568	0.26	2.958	2.930	AA+ Aa1 NA
57582RF84	570,000.00		0.508	07/01/2023		570,000.00	0.00	570,000.00	0.508	0.508	0.30	3.003	2.952	AA Aa1 NA
Total	186,016,895.50		1.379			188,407,881.60	509,265.34	188,917,146.94	1.229	0.248	100.00	0.752	0.695	

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.

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, LGI 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.





FINANCE COMMITTEE
July 28, 2020

SUBJECT: Amendments to LMC 1.20: Fee, Charges and Bonding Requirements

RECOMMENDATION: Briefing on proposal to expand fee waivers in LMC 1.20 to all developers that develop low-income affordable housing projects.

STAFF CONTACT: Scott Spence, City Manager *SS*
Rick Walk, Community and Economic Development Director *RW*
Ryan Andrews, Planning Manager *RA*

ORIGINATED BY: Community and Economic Development Department and City Manager

ATTACHMENTS: None.

FISCAL NOTE: Waiving fees for low-income affordable housing projects will impact permit revenues based on the number of waivers issued.

PRIOR REVIEW: None.

BACKGROUND:

A priority action item identified in the City of Lacey's Affordable Housing Strategy is expanding the program that waives fees for non-profits building low-income housing to private sector builders that build low-income housing.

LMC 1.20 currently authorizes the City Manager to waive certain development fees for community-based housing development organizations, Habitat for Humanity and the Boys and Girls Club of Thurston County. The fees eligible to be waived include:

- Building,
- Mechanical,
- Plumbing,
- Electrical permits
- Plan check fees;
- Water meter fees, and
- Transportation mitigation fees.

The City Manager is also authorized to defer wastewater connection and general discharge fees for certain affordable housing development projects. Just as the City reduces fees for community-based housing development organizations, the City Council could also authorize the City Manager to waive fees for private sector developers building low-income units. (Affordable Housing Strategy Action 6).

If City Council decides to pursue amending LMC 1.20, a program with criteria and conditions will need to be established to ensure the projects and/or units proposed for fee waiver are meeting the community's need for low income housing and state law regarding the use of public funds.

Amending LMC 1.20 and expanding the waiver and deferral of certain fees to all developers would be an optional program a developer could choose to pursue. The success of the program depends on the actual demand by those in the development community who would utilize it, targeting the appropriate income range, placement of qualifying households in the units, management of the units, and adequate resources for City administration and oversight of the program.

The following criteria are initial elements of a fee waiver program that Council can consider. This list is a starting point that can be refined based on discussions and feedback from the residential, building and social service communities:

- A developer may request a fee waiver or deferral for each unit that provides housing for low income or very low-income households. Low income is defined as 80% of AMI and very low income is defined as 50% of AMI (consistent with Multi-family Tax Exemption Program)
- Units receiving a waiver shall only be leased to qualifying low income or very low-income households in perpetuity.
- If the property owner would like to remove units from the program, all waived fees would be paid to the City at the value of the year the units are no longer available to low and very low income households.
- The developer would be required to enter into a partnership with a non-profit for leasing and management of the units designated for low and very low-income households.
- An annual report would be provided to the City verifying occupants of all units designated for low and very low-income housing are meeting the definitions of low and very low-income definitions.

The purpose of this briefing is to introduce the proposal to expand fee waivers in LMC 1.20 to all developers that construct housing for low and very low income households, to have a general discussion of program criteria, receive guidance from the Finance & Economic Development Committee on developing a draft program and start community outreach.

ADVANTAGES:

1. Extending a fee waiver to the private sector would reduce cost barriers which would encourage the construction of more units that are affordable to low income individuals.

DISADVANTAGES:

1. Program administration will require additional staff time and resources.
2. Impact permit revenues based on the number of waivers issued.