CITY OF LACEY

Shaping our community together

FINANCE & ECONOMIC DEVELOPMENT COMMITTEE

TUESDAY, JULY 27, 2021

8:30 A.M.

REMOTE ATTENDANCE

To comply with Governor Inslee's Proclamation 20-28, the Finance & Economic Development 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/86345214770
The public may also listen to the meeting via telephone by dialing toll-free:

(888) 788-0099 or **(877) 853-5247** – when prompted, enter Webinar ID: **863 4521 4770** press # (participant ID not required)

LACEY MAKERSPACE

RICK WALK, COMMUNITY DEVELOPMENT DIRECTOR
(BRIEFING)

2022 BUDGET CALENDAR

TROY WOO, FINANCE DIRECTOR
(STAFF REPORT)

SECOND QUARTER INVESTMENT REPORT

TROY WOO, FINANCE DIRECTOR
(STAFF REPORT)

City of Lacey
Finance Department

Memo

Date: June 11, 2021

To: Department Directors, Managers, and Supervisors

From: Scott Spence, City Manager SS
Troy Woo, Finance Director TW

Subject: Budget Call, Instructions, and Schedule for 2022 Budget Development

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The 2021 budget year began the same as 2020 ended: The City's overall revenues are stronger than expected, but not without doubt about the long-term sustainability of the growth. Beginning on January 11, 2021, the State began following the "Healthy Washington – Roadmap to Recovery" COVID-19 phased recovery plan. Most recently, Governor Inslee announced Washington State was on track to fully reopen by June 30 and all counties would remain in phase 3 of the recovery plan.

On December 17, 2020, the Lacey City Council passed Resolution No. 1101, extending the City's declaration of emergency until January 1, 2022. The City continues to limit City Hall's hours open to the public, maintains the COVID-19 safety guidelines provided by the Centers for Disease Control and Prevention (CDC) and State and Local Health Departments, and encourages teleworking to help maintain recommended social distancing. Given the current COVID-19 metrics within in the State, it is expected the City will move towards more normal operations starting in the month of July.

While not all of the projected revenue reductions included in the May 14, 2020, budget amendment were realized, City revenue sources were still negatively impacted including parks and recreation fees, interest and investment earnings, and certain tax categories directly impacted by Governor Inslee's "Stay Home, Stay Healthy" order and "Healthy Washington – Roadmap to Recovery" COVID-19 phased recovery plan.

Through the first quarter of 2021, sales, property, and utility taxes are higher than first quarter 2020. This is noteworthy because the first quarter of 2020 was mostly unaffected by the COVID-19 restrictions. Unfortunately, admissions tax, gambling tax, parks and recreation fees, and interest earnings are lower than the first quarter 2020 by $59,415, $98,666, $94,672, and $33,897, respectively. Overall, the first quarter 2021 General Fund revenues were $387,881 lower than the same period of 2020.

The City's true recovery from the Great Recession began in 2015 when new construction increases relating to the North Thurston Public Schools bond measure projects began. In 2018, new construction increases related to industrial development in northeast Lacey began to have an even larger impact on City revenues. During 2020, the majority of the industrial development was completed and building permit fee revenues fell 42.6 percent compared to 2019. Through May 2021, building permit fee revenues are 15.4 percent lower than the same period in 2020. Sales tax generated from the construction of buildings is down 35.6 percent year-to-date 2021 compared to 2020.

Sales taxes during the COVID-19 public health emergency increased in the areas of general merchandise and building materials. While the increases are welcomed, the sustainability following the end of the COVID-19 restrictions is unknown. The precise impacts of Federal stimulus, "forced" local shopping due to travel restrictions, and inflated home and household investments (home improvements) are difficult to determine and predict going forward.

On the expenditure side, inflation will potentially continue to be higher. The Federal Reserve has indicated it is will to let inflation run higher to bring long-term inflation closer to the 2.0 percent target. The April consumer prices increased 4.2 percent. This is the highest increase since 2008. Also, spending activity (demand) is expected to continue due to the Federal stimulus and the spending down of built up consumer savings account levels.

The full economic impact like the COVID-19 public health emergency itself will remain uncertain for some time into the future.

<u>Summary and Direction</u>

During the 2022 Budget development period, the City will likely continue to contend with a higher level of uncertainty than normal.

- Washington State is moving towards being fully reopen by June 30. Governor Inslee made the announcement by stating, "It is a recognition that we are moving to a strategy based on vaccination versus restrictions in our personal behavior." This would be a boost to the national, state, and local economies.

- Federal financial support continues to boost the economy. The American Rescue Plan Act will deliver another infusion of resources to help address the economic challenges and establish another assistant fiscal package to help with the recovery. Local governments will receive direct financial distributions.

- The 2021 first quarter General Fund's revenues are not keeping pace with last year's collections (-$387,881). This was expected as the financial outlook at the beginning of 2020 was positive and the 2021 economy is still hampered by the COVID-19 public health emergency.

- The first quarter General Fund's expenditures are $413,722 higher despite reductions to expenditure areas due to COVID-19 restrictions and the adoption of a modest 2021 Budget. It is expected the inflation increase will be temporary, but there exists a risk that the cost of providing services could rise at a higher pace than expected.

- Inflation for April 2021 jumped 4.2 percent, which is the highest level since 2008. The expectation was for a 3.6 percent increase. A significant factor was this time last year the economy was at one of the worst stages of the COVID pandemic and inflation was very low. The increase is expected to be high for two to three months, but will return to a lower level.

- Developing an accurate financial forecast will remain difficult. The full eradication of COVID-19 has not occurred, so there are still many questions and, in most cases, there are no clear answers.
    - Will the vaccine race continue to win over the emerging variants?
    - How will Lacey's local economy evolve as the Country and State fully reopen?
    - To what extent have the supplemental unemployment benefits been keeping families financially stable?
    - Will schools and daycares fully open this fall?
    - Will the unemployment rate continue to fall?

The City's consumption-based revenues are expected to be unpredictable and may experience setbacks during the recovery period. A significant portion of the General Fund's revenues consist of consumption-based revenues, which include sales tax, business and occupation (B&O) tax, utility tax, admissions tax, gambling tax, and some State-shared revenues such as fuel and liquor taxes.

Expenditures are expected to increase as inflation and supply shortages are affecting prices. This is expected to continue through the summer months. It is assumed the increases will be temporary, but will make expenditure projections challenging.

Due to the unpredictability and uncertainty of both the revenue and expenditure projections, the 2022 Budget will not be one of expansion with the exception of critical/essential needs. Even prior to the COVID-19 public health emergency, there were concerns about the sustainability of the ongoing expenditure levels of the organization. It will be difficult to consider nonessential budget requests unless offsetting reductions in other areas or an identified revenue source is identified.

Here is a tentative budget schedule for your review. The schedule roughly follows the same timelines as last year's schedule.

Friday, June 11:	Finance Director issues 2022 Budget "Call".
Monday, June 28:	Budget System will be open for use. Note: any minor increases must be accompanied with an offsetting reduction.
Monday, July 26:	Budget proposals are due. **Note: only essential requests will be considered.**

Friday, August 6:	Estimates presented to City Manager for modifications, revisions, or additions.
Tuesday, August 24:	Finance and Economic Development Committee - Final 2021 Budget Amendment Ordinance briefing.
Aug 16 – Aug 27:	Departmental Budget Reviews (*if necessary*).
Thursday, Sept. 2:	Final 2021 Budget Amendment Ordinance.
Monday, Sep. 27:	City Manager balances proposed 2022 Budget.
Tuesday, Sept. 28:	Finance and Economic Development Committee Budget Discussion – provide current information on estimates of revenues and preliminary expenditure requests by department.
Thursday, October 7:	2022 Budget Workshop (Worksession to follow the Council Meeting)
Friday, October 15:	Proposed 2022 Budget and Budget Message are filed with City Clerk and City Council. Copies of 2022 Budget made available to the public.
Monday, October 18:	City Clerk publishes notice of filing of proposed budget.
Thursday, October 21:	2022 Budget Presentation to City Council.
Monday, October 25:	City Clerk publishes first notice of November 4 public hearing on revenue sources.
	City Clerk publishes first notice of November 4 public budget hearing
Tuesday, Oct. 26:	Finance and Economic Development Committee - Budget Discussion (if necessary).
	Finance and Economic Development Committee - Property Tax.
	Finance and Economic Development Committee – Utility Rate Ordinances.
Monday, November 1:	Utilities Committee – Utility Rate Ordinances.
	City Clerk publishes second notice of November 4 public hearing on revenue sources.
	City Clerk publishes second notice of November 4 public budget hearing.

Thursday, November 4:	City Council to conduct public hearing on 2022 revenue sources, including consideration of possible increases in property tax revenues and utility rate increases. Conduct Proposed 2022 Budget Hearing: Provide overview of total budget, review expenditure requests for Administration/Finance, Police, Public Works, Community Development, Parks and Recreation, and miscellaneous funds.
Monday, November 8:	City Clerk publishes first notice of November 18 public budget hearing.
Monday, November 15:	City Clerk publishes second notice of November 18 public budget hearing.
Thursday, November 18:	Conduct Proposed 2022 Budget Hearing: Provide overview of total budget, review expenditure requests for Administration/Finance, Police, Public Works, Community Development, Parks and Recreation, and miscellaneous funds. City Council sets the 2022 Property Tax Levy by ordinance. City Council sets Water rates by ordinance. City Council sets Wastewater rates by ordinance. City Council sets Stormwater rates by ordinance.
Thursday, December 2:	City Council to adopt 2022 Budget.

FINANCE & ECONOMIC DEVELOPMENT COMMITTEE
July 27, 2021

SUBJECT: **Second Quarter 2021 Investment Report**

RECOMMENDATION: **Review Second Quarter Investment Report**

STAFF CONTACT: Shannon Kelley-Fong, Assistant City Manager, SKF
Acting City Manager
Troy Woo, Finance Department

ORIGINATED BY: Troy Woo, Finance Department TW

ATTACHMENTS: 1. Government Portfolio Advisors Report

FISCAL NOTE: None

PRIOR REVIEW: None

BACKGROUND:

The City's adopted investment policy requires quarterly reporting to the City Manager and annual reporting to the City Council. The Finance & Economic Development Committee issued a standing request to extend extra review of the reports to semi-annually. The additional review is especially relevant during these uncertain economic times.

The 2021 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, and recommendations for the City's investment strategy.

2. New 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.

In summary, Lacey’s core fund portfolio barely outperformed the investment strategy benchmarks. The core fund net total return for the quarter was -0.01 percent. The benchmark total return for the period was -0.02 percent.

- The Federal Reserve outlook contains more uncertainty as the concern with inflation grows. The most recent projection indicates two rate hikes before the end of 2023. This is a change. Last quarter the projection did not include any rate increases until the end of 2023.

- First quarter 2021 GDP grew 6.4 percent. The second quarter is expected to be stronger due to federal stimulus spending and the reopening of the economy.

- Book yields are expected to fall in a larger range (0.15 percent to 0.30 percent) due to a lack of clarity with inflation.

- The core fund portfolio book yield decreased from 1.28 percent to 0.91 percent.

- At of the end of the second quarter 2021, the portfolio duration was 1.478 years, which is slightly higher than the benchmark duration of 1.40 years. Future reinvestments will maintain the benchmark duration as opposed to the recent strategy to extend durations, which allowed the portfolio to achieve the target.

Quarterly Investment Report
City of Lacey

June 30, 2021

Total Aggregate Portfolio

Market Commentary

Market Yields: The Treasury curve flattened in the second quarter as longer-term yields declined with the 10-year yield lower by 0.27% and the 30-year yield lower by 0.33%. While long-term yields declined, the front-end saw yields rise in response to a more hawkish response out of the Federal Reserve with 2-year yields increasing by 0.09% to end the quarter at 0.25%. The markets also re-priced lower the anticipated peak federal funds rate for the current cycle from 2.35% at the end of the first quarter down to 1.70% to close out June. The message is that the Fed is likely to hike rates sooner than anticipated and this will cool growth and inflation back toward levels consistent with the environment pre-COVID when the federal funds rate was 1.50% and the 10-year Treasury yield traded in a range from 1.50% to 2.00%.

FOMC: The Fed made waves in June with the release of their updated economic and policy rate projections that cast doubt that the modern Fed operates under a new reaction function that is more responsive to labor market conditions than inflation The Fed upgraded their current year inflation outlook and left their 2023 core PCE inflation estimate stable at 2.1%. Despite this, median expectations from policy makers now forecasts hiking rates twice by the end of 2023 where none were expected just three months earlier. Markets reacted by sending front-end yields higher and longer-term yields lower.

Employment and Inflation: The employment sector continues to heal from the damage inflicted by the pandemic. The labor market added 1.7 million jobs in the second quarter led by large gains in leisure and hospitality where 977 thousand jobs were filled ahead of the summer season. While the gains are impressive by most standards, the pace of job additions has been slower than economists anticipated and still leaves a hole of 6.8 million jobs when comparing the labor market to pre-COVID levels. We continue to monitor the struggling, labor force participation rate which indicates there may be more slack in the labor market than the headline indicator suggest. The focus has now shifted toward the fall when schools and day care facilities fully reopen and extended unemployment benefits expire nationwide. As of the end of the second quarter, there are still over 14 million Americans receiving some form of unemployment compensation which is no doubt a large tailwind to the economy by injecting income.

Market Outlook

GDP: Economic growth in the first quarter came in strong at an annualized pace of 6.4% led by outsized gains in consumer and government spending offset by contractions in private domestic investment and exports. Fueled by stimulus and economic reopening, growth for the second quarter is expected to be even stronger with estimates from the Federal Reserve ranging from 3.2% to 7.8% while the median economist forecast, according to Bloomberg, calling for growth to come in at 10%.

Fed Funds: Uncertainty has increased for the federal funds rate as several policy makers grow increasingly concerned with inflation The June update from the FOMC now indicates a median expectation of two rates hikes before the end of 2023. Around this median expectation is a wide amount of dispersion as five members are calling for no rate hikes and two members are projecting six. The amount of uncertainty is easy to understand, with over $5 trillion in stimulus, damaged supply chains, economic reopening, and a successful vaccine campaign has led to historically volatile data that makes it difficult to understand what is happening. The only thing for sure is that no one is sure on the path forward, including Fed members.

Two-year Yield Expectations: 2-year yields were jolted out of their trading range after the release of the Fed's more hawkish projections of future rate hikes. As the Fed pays more attention to inflation, so too will front-end yields. Looking for signs of abating inflation or more durable pressures, we continue to believe it will come down to wages and residential rent trends in the months ahead. Until we get more clarity on inflation, we anticipate 2-year yields will trade in a wider range between 0.15% and 0.30%.

Portfolio Positioning: Last quarter, we were constructive on the three to five-year area to get accounts up to their strategic duration targets. While yields have moved lower, we continue to guide clients to remain neutral around duration given we are likely past peak growth and inflation and face uncertainty in the months ahead around where the economy settles once stimulus wanes. While we are not outright avoiding spread sectors, valuations are at historic lows leading us to be more patient and selective.

Quarterly Yield Change

	09/30/20	12/31/20	03/31/21	06/30/21
3 month bill	0.09	0.06	0.02	0.04
2 year note	0.13	0.12	0.16	0.25
5 year note	0.28	0.36	0.94	0.89
10 year note	0.68	0.91	1.74	1.47

Economists' Survey Projections

	Q3-21	Q4-21	Q1-22	Q2-22
Real GDP	7.0	5.0	3.5	3.0
Core PCE (YOY%)	2.7	2.8	2.7	2.1
Unemployment	5.3	4.8	4.5	4.3

Economists' Survey Projections for Rates

	Q3-21	Q4-21	Q1-22	Q2-22
Fed Funds	0.25	0.25	0.25	0.3
2 Year	0.25	0.31	0.38	0.46
10 year	1.79	1.88	1.95	2.02

Compliance Report

City of Lacey | Total Aggregate Portfolio

June 30, 2021

Category

Policy Diversification Constraint	Policy Limit	Actual Value*	Status
US Treasury Obligations Maximum % of Holdings	100.000	16.570	Compliant
US Agency Callable Securities Maximum % of Total Portfolio	25.000	0.000	Compliant
US Agency FFCB Issuer Concentration	35.000	10.324	Compliant
US Agency FHLB Issuer Concentration	35.000	5.225	Compliant
US Agency FHLMC Issuer Concentration	35.000	9.250	Compliant
US Agency FNMA Issuer Concentration	35.000	1.389	Compliant
US Agency Obligations - Primary FHLB, FNMA, FHLMC, FFCB Maximum % of Holdings	100.000	26.189	Compliant
US Agency Obligations - Secondary FICO, FARMER MAC etc. Maximum % of Holdings	10.000	0.000	Compliant
US Agency Obligations Issuer Concentration - Secondary FICO, FARMER MAC etc.	5.000	0.000	Compliant
Supranationals - Issuer is ADB, IADB, IBRD, or IFC	0.000	0.000	Compliant
Supranationals Issuer Concentration	5.000	1.964	Compliant
Supranationals Maximum % of Holdings	10.000	3.821	Compliant
Municipal Bonds Issuer Concentration	5.000	0.945	Compliant
Municipal Bonds Maximum % of Holdings	30.000	3.331	Compliant
Municipal Bonds: Non-GO outside of Washington (Not allowed)	0.000	0.000	Compliant
Municipal Issue Directly Internally or Interfund Loans	15.000	0.000	Compliant
Corporate Notes & Commercial Paper Maximum % of Holdings	25.000	2.389	Compliant
Corporate Notes & Commercial Paper Single Issuer %	3.000	1.405	Compliant
Certificates of Deposit Issuer Concentratio	5.000	0.000	Compliant
Certificates of Deposit Maximum % of Holding	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	26.250	Compliant
PDPC Bank Deposits Issuer Concentration	100.000	17.268	Compliant
PDPC Bank Deposits Maximum % of Holdings	20.000	17.268	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, 2021

Category

Policy Maturity Structure Constraint	Policy Limit	Actual %	Status
Maturity Constraints Under 30 days Minimum % of Total Portfolio	10.000	43.443	Compliant
Maturity Constraints Under 5 years Minimum % of Total Portfolio	100.000	100.000	Compliant
Maturity Constraints Under 1 Year Minimum % of Total Portfolio	25.000	59.425	Compliant
Policy Maturity Constraint	**Policy Limit**	**Actual Term**	**Status**
US Treasury Maximum Maturity At Time of Purchase (years)	5.000	0.000	Compliant
US Agency Maximum Maturity At Time of Purchase (years)	5.000	0.000	Compliant
US Agency Obligations - Secondary Must be rated by Atleast one	0.000	0.000	Compliant
Municipals Maximum Maturity At Time of Purchase (years)	5.000	0.000	Compliant
Corporate Note Portfolio Duration (years)	3.000	1.123	Compliant
Commercial Paper Days to Final Maturity (days)	270.000	0.000	Compliant
Weighted Average Maturity (years)	2.000	0.929	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

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Strategic Quarterly Update

City of Lacey | Total Aggregate Portfolio

June 30, 2021

Strategic Outlook

- The second quarter is likely to mark peak growth and inflation for the current cycle as we do not anticipate any major stimulus efforts that are geared to spark near-term economic growth. All eyes are on the health of the consumer as we move through the summer and into the fall where job gains and wage growth will be needed to support further spending as stimulus and economic support begins to wane.
- Spread sectors ended the quarter at or near historically tight spread levels. We continue to see very little agency issuance while robust corporate and municipal issuance is easily absorbed by investors eager to add incremental yield into portfolios.
- Inflation, growth, and labor trends will be closely monitored over the coming months to see how, and to what degree, the economy changed from the pre-COVID path we were on. Thus far the United States is leading the way globally as $5 trillion in stimulus boosted growth and drove demand for goods that was significantly higher than levels seen before the pandemic

Portfolio Positioning

- Your portfolio's duration ended the quarter well-aligned with our target level. Investment opportunities going forward will be used to maintain duration positioning.
- Agency, municipal, and corporate spreads are all at, or near, historically low levels. Our focus going forward will be on Treasury securities and selected opportunities in the corporate sector.
- The total portfolio book yield decreased from 0.775 to 0.554.
- The total portfolio unrealized gain ended the quarter at $589,094.
- The core portfolio duration decreased over the quarter from 1.764 last quarter to 1.622 this quarter. The benchmark duration ended the quarter at 1.478.
- Net total return for the core portfolio, which includes change in market value and interest income, was -0.01%. The benchmark total return for the period was -0.02%.

Strategy	03/31/2021	06/30/2021
Effective Duration		
Investment Core	1.76	1.62
Benchmark Duration	1.47	1.48
Total Effective Duration	**1.01**	**0.92**
Total Return (Net of Fees %)*		
Investment Core	(0.03)	(0.01)
Benchmark Return	(0.01)	(0.02)
Total Portfolio Performance	**(0.00)**	**0.00**
**Changes in Market Value include net unrealized and realized gains/losses.*		
Maturity Total Portfolio		
Average Maturity Total Holdings	**1.03**	**0.93**

Book Yield	03/31/2021	06/30/2021
Ending Book Yield		
Investment Core	1.28%	0.91%
Liquidity	0.11%	0.09%
Total Book Yield	**0.78%**	**0.55%**

Values	03/31/2021	06/30/2021
Market Value + Accrued		
Investment Core	109,820,945	122,353,365
Liquidity	82,959,502	93,983,197
Total MV + Accrued	**192,780,448**	**216,336,562**
Net Unrealized Gain/Loss		
Total Net Unrealized Gain/Loss	**912,983**	**589,094**

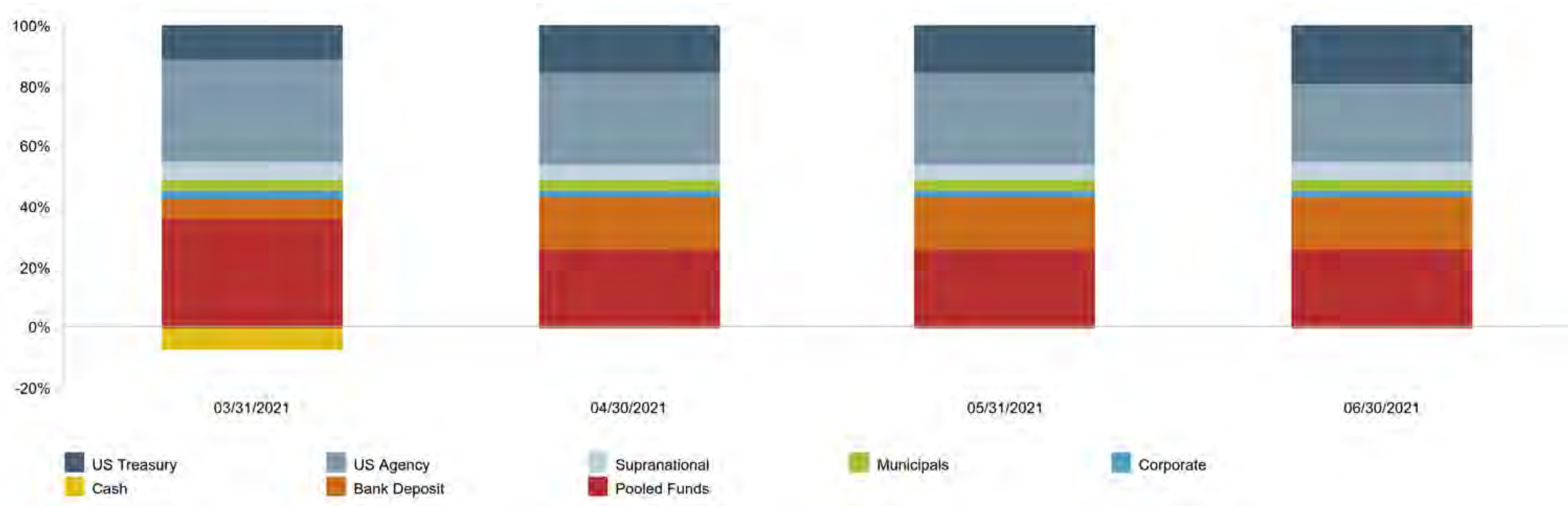
Asset Allocation Change over Quarter

City of Lacey | Total Aggregate Portfolio

June 30, 2021

Asset Allocation Changes

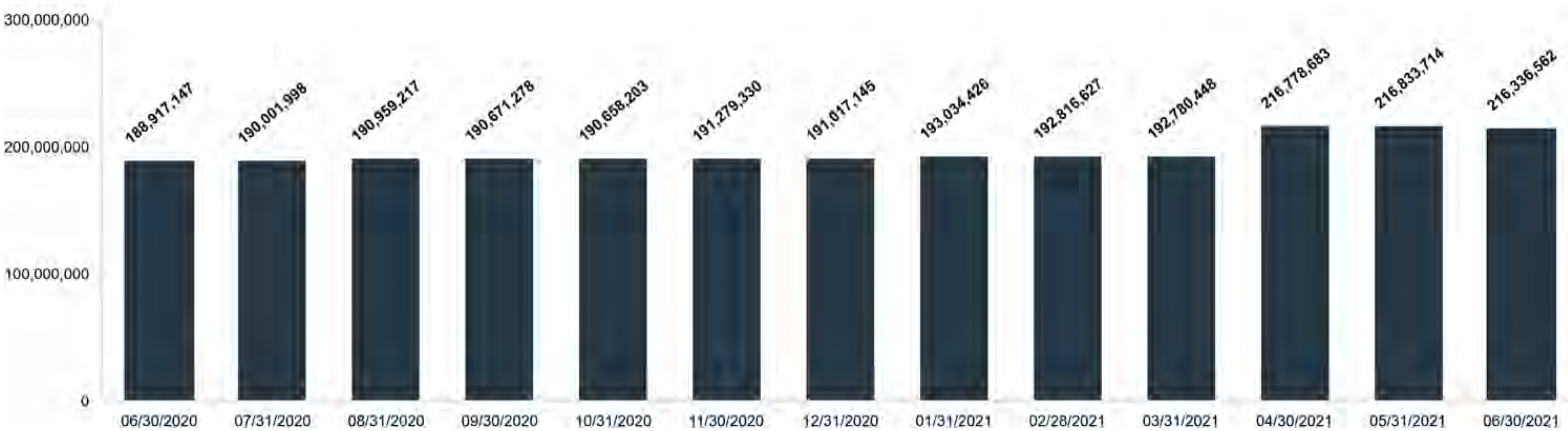
	03/31/2021		06/30/2021		Change	
Security Type	**Market Value + Accrued**	**% of Portfolio**	**Market Value + Accrued**	**% of Portfolio**	**Market Value + Accrued**	**% of Portfolio**
US Treasury	33,515,554.91	17.39%	40,876,408.97	18.89%	7,360,854.06	1.51%
US Agency	65,994,656.53	34.23%	56,717,177.92	26.22%	(9,277,478.61)	(8.02%)
Supranational	10,847,235.76	5.63%	12,333,089.65	5.70%	1,485,853.89	0.07%
Municipals	7,258,396.67	3.77%	7,207,377.74	3.33%	(51,018.94)	(0.43%)
Corporate	5,218,597.69	2.71%	5,219,310.42	2.41%	712.72	(0.29%)
Cash	(13,013,496.08)	(6.75%)	0.00	0.00%	13,013,496.08	6.75%
Bank Deposit	13,281,488.40	6.89%	37,293,059.86	17.24%	24,011,571.46	10.35%
Pooled Funds	69,678,013.65	36.14%	56,690,137.26	26.20%	(12,987,876.39)	(9.94%)
Total	192,780,447.53	100.00%	216,336,561.81	100.00%	23,556,114.28	



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

Historical Balances

Market Value



Market Value and Return

Period Begin	Period End	Market Value + Accrued	Interest Income	Book Yield	Effective Duration	Maturity in Years
06/01/2020	06/30/2020	188,917,147	212,808	1.23%	0.70	0.75
07/01/2020	07/31/2020	190,001,998	210,788	1.13%	0.78	0.84
08/01/2020	08/31/2020	190,959,217	193,319	1.10%	0.73	0.78
09/01/2020	09/30/2020	190,671,278	182,499	1.04%	0.77	0.80
10/01/2020	10/31/2020	190,658,203	179,125	0.99%	0.78	0.81
11/01/2020	11/30/2020	191,279,330	171,017	0.97%	0.73	0.76
12/01/2020	12/31/2020	191,017,145	171,300	0.93%	0.73	0.76
01/01/2021	01/31/2021	193,034,426	166,118	0.85%	0.83	0.85
02/01/2021	02/28/2021	192,816,627	148,857	0.85%	0.79	0.81
03/01/2021	03/31/2021	192,780,448	148,151	0.78%	1.01	1.03
04/01/2021	04/30/2021	216,778,683	159,433	0.64%	0.91	0.93
05/01/2021	05/31/2021	216,833,714	156,407	0.64%	0.87	0.88
06/01/2021	06/30/2021	216,336,562	141,191	0.55%	0.92	0.93

Summary Overview

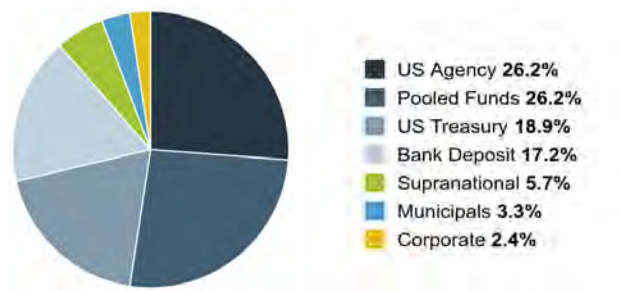
City of Lacey | Total Aggregate Portfolio

June 30, 2021

Portfolio Characteristics

Metric	Value
Cash and Cash Equivalents	93,983,197.12
Investments	122,353,364.69
Book Yield	0.55%
Market Yield	0.24%
Effective Duration	0.92
Years to Maturity	0.93
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	120,550,000.00	121,392,584.87	121,710,170.37	121,981,678.90	589,094.03	371,685.79	0.91%	1.62	1.48	ICE BofA 0-3 Year US Treasury Index
LACEY-Liquidity	93,983,197.12	93,983,197.12	93,983,197.12	93,983,197.12	0.00	0.00	0.09%	0.01	0.09	ICE BofA US 1-Month Treasury Bill Index
Total	**214,533,197.12**	**215,375,781.99**	**215,693,367.49**	**215,964,876.02**	**589,094.03**	**371,685.79**	**0.55%**	**0.92**	**0.88**	

Portfolio Activity

City of Lacey | Total Aggregate Portfolio

June 30, 2021

Accrual Activity Summary

	Quarter to Date	Fiscal Year to Date (01/01/2021)
Beginning Book Value	191,463,655.41	189,302,139.02
Maturities/Calls	(13,000,000.00)	(29,000,000.00)
Purchases	12,992,064.54	44,192,433.60
Sales	0.00	0.00
Change in Cash, Payables, Receivables	24,037,191.15	11,054,725.95
Amortization/Accretion	(117,129.11)	(173,516.58)
Realized Gain (Loss)	0.00	0.00
Ending Book Value	215,375,781.99	215,375,781.99

Fair Market Activity Summary

	Quarter to Date	Fiscal Year to Date (01/01/2021)
Beginning Market Value	192,376,638.77	190,616,117.87
Maturities/Calls	(13,000,000.00)	(29,000,000.00)
Purchases	12,992,064.54	44,192,433.60
Sales	0.00	0.00
Change in Cash, Payables, Receivables	24,037,191.15	11,054,725.95
Amortization/Accretion	(117,129.11)	(173,516.58)
Change in Net Unrealized Gain (Loss)	(323,889.33)	(724,884.82)
Net Realized Gain (Loss)	0.00	0.00
Ending Market Value	215,964,876.02	215,964,876.02

Maturities/Calls	Market Value
Quarter to Date	(13,000,000.00)
Fiscal Year to Date	(29,000,000.00)

Purchases	Market Value
Quarter to Date	12,992,064.54
Fiscal Year to Date	44,192,433.60

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, 2021

Accrued Book Return

	Quarter to Date	Fiscal Year to Date (01/01/2021)
Amortization/Accretion	(117,129.11)	(173,516.58)
Interest Earned	457,031.65	920,158.58
Realized Gain (Loss)	0.00	0.00
Book Income	339,902.54	746,642.00
Average Portfolio Balance	212,124,374.23	202,045,691.92
Book Return for Period	0.16%	0.37%

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 (01/01/2021)
Market Value Change	(323,889.33)	(724,884.82)
Amortization/Accretion	(117,129.11)	(173,516.58)
Interest Earned	457,031.65	920,158.58
Fair Market Earned Income	16,013.21	21,757.18
Average Portfolio Balance	212,124,374.23	202,045,691.92
Fair Market Return for Period	0.01%	0.01%

Interest Income

	Quarter to Date	Fiscal Year to Date (01/01/2021)
Beginning Accrued Interest	403,808.76	401,027.17
Coupons Paid	490,886.90	1,043,678.57
Purchased Accrued Interest	1,732.28	94,178.61
Sold Accrued Interest	0.00	0.00
Ending Accrued Interest	371,685.79	371,685.79
Interest Earned	457,031.65	920,158.58

Security Type Distribution

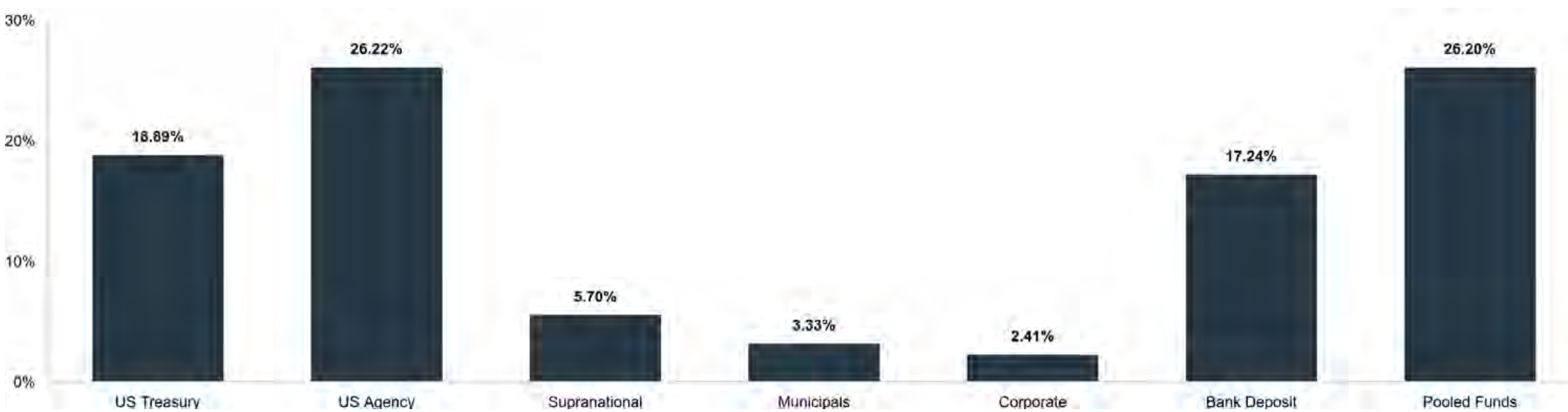
City of Lacey | Total Aggregate Portfolio

June 30, 2021

Security Type Distribution

Security Type	Par Amount	Book Yield	Market Value + Accrued	% of Market Value + Accrued
US Treasury	40,500,000.00	0.65%	40,876,408.97	18.89%
US Agency	56,000,000.00	1.18%	56,717,177.92	26.22%
Supranational	12,000,000.00	0.30%	12,333,089.65	5.70%
Municipals	7,050,000.00	0.98%	7,207,377.74	3.33%
Corporate	5,000,000.00	1.35%	5,219,310.42	2.41%
Bank Deposit	37,293,059.86	0.13%	37,293,059.86	17.24%
Pooled Funds	56,690,137.26	0.07%	56,690,137.26	26.20%
Total	**214,533,197.12**	**0.55%**	**216,336,561.81**	**100.00%**

Security Type Distribution



Risk Management-Credit/Issuer

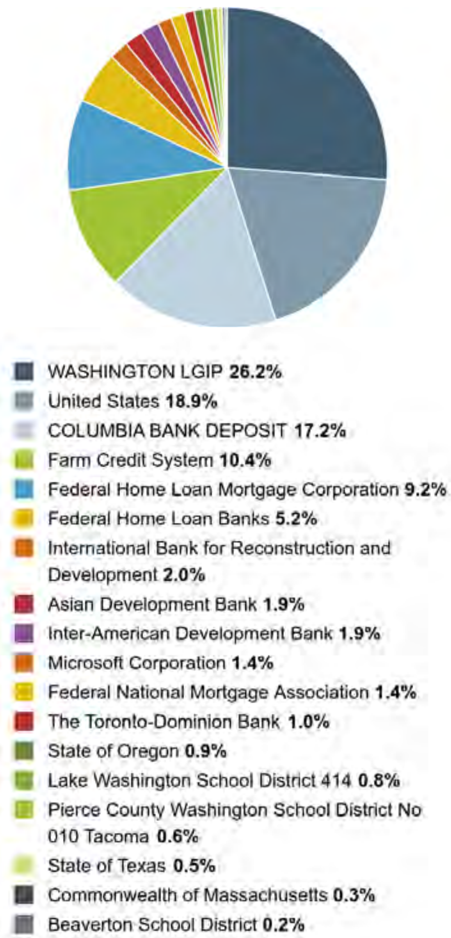
City of Lacey | Total Aggregate Portfolio

June 30, 2021

Credit Rating S&P/Moody's/Fitch

	Market Value + Accrued	%
S&P		
AA	573,972.90	0.27
AA+	103,224,636.72	47.71
AA-	2,157,420.00	1.00
AAA	15,394,980.07	7.12
NA	94,985,552.12	43.91
Moody's		
Aa1	5,279,847.68	2.44
Aaa	117,073,517.01	54.12
NA	93,983,197.12	43.44
Fitch		
AA	2,157,420.00	1.00
AA+	2,619,846.23	1.21
AAA	105,723,813.07	48.87
NA	105,835,482.51	48.92
Total	**216,336,561.81**	**100.00**

Issuer Concentration



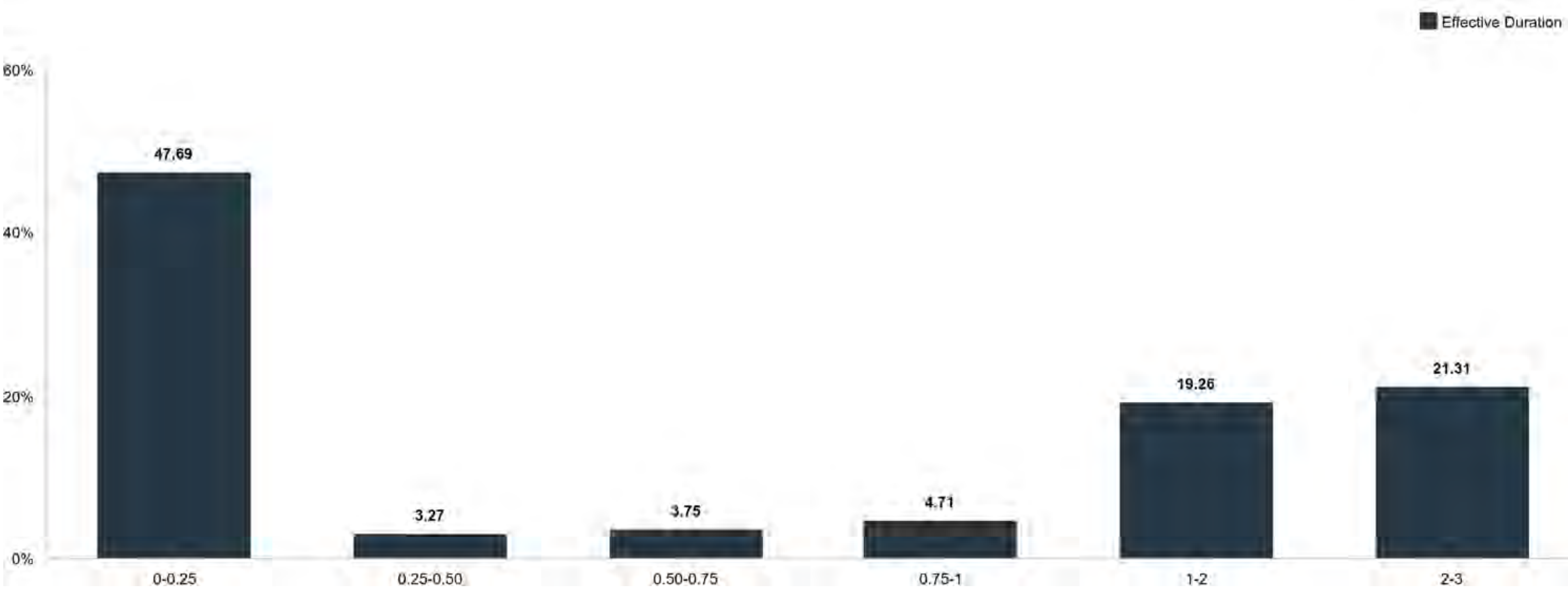
Risk Management-Maturity/Duration

City of Lacey | Total Aggregate Portfolio

June 30, 2021

0.92 Yrs	Effective Duration
0.93 Yrs	Years to Maturity
340	Days to Maturity

Distribution by Effective Duration



Holdings by Maturity & Ratings

City of Lacey | Total Aggregate Portfolio

June 30, 2021

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	37,293,059.86	COLUMBIA BANK DEPOSIT	0.130%	06/30/2021		37,293,059.86	0.00	37,293,059.86	0.13%		17.24	0.01	0.01	NA NA NA
WA_LGIP	56,690,137.26	WASHINGTON LGIP	0.069%	06/30/2021		56,690,137.26	0.00	56,690,137.26	0.07%		26.20	0.01	0.01	NA NA NA
9128287G9	5,000,000.00	UNITED STATES TREASURY	0.270%	07/31/2021		5,000,950.00	2,088.90	5,003,038.90	0.21%	0.05%	2.31	0.08	0.02	AA+ Aaa AAA
3133EJVV8	4,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	2.800%	08/02/2021		4,009,440.00	46,355.56	4,055,795.56	2.75%	0.14%	1.87	0.09	0.09	AA+ Aaa AAA
912828T34	1,000,000.00	UNITED STATES TREASURY	1.125%	09/30/2021		1,002,660.00	2,827.87	1,005,487.87	1.65%	0.07%	0.46	0.25	0.25	AA+ Aaa AAA
9128285F3	2,000,000.00	UNITED STATES TREASURY	2.875%	10/15/2021		2,016,340.00	12,096.99	2,028,436.99	2.29%	0.08%	0.94	0.29	0.29	AA+ Aaa AAA
3133EJ3B3	4,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	2.800%	12/17/2021		4,049,880.00	4,355.56	4,054,235.56	2.89%	0.11%	1.87	0.47	0.46	AA+ Aaa AAA
594918BA1	3,000,000.00	MICROSOFT CORP	2.375%	02/12/2022	01/12/2022	3,034,380.00	27,510.42	3,061,890.42	2.05%	0.51%	1.42	0.62	0.53	AAA Aaa AAA
912828J76	5,000,000.00	UNITED STATES TREASURY	1.750%	03/31/2022		5,062,500.00	21,994.54	5,084,494.54	1.55%	0.09%	2.35	0.75	0.75	AA+ Aaa AAA
68609TMJ4	1,000,000.00	OREGON ST	1.707%	05/01/2022		1,013,250.00	2,845.00	1,016,095.00	1.71%	0.12%	0.47	0.84	0.83	AA+ Aa1 AA+
313379Q69	5,000,000.00	FEDERAL HOME LOAN BANKS	2.125%	06/10/2022		5,095,500.00	6,197.92	5,101,697.92	1.91%	0.10%	2.36	0.94	0.94	AA+ Aaa AAA
3133EKRD0	4,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	1.875%	06/14/2022		4,068,640.00	3,541.67	4,072,181.67	1.88%	0.08%	1.88	0.96	0.95	AA+ Aaa AAA
3137EAET2	2,000,000.00	FEDERAL HOME LOAN MORTGAGE CORP	0.125%	07/25/2022		2,000,440.00	1,083.33	2,001,523.33	0.21%	0.10%	0.93	1.07	1.07	AA+ Aaa AAA
3133EKPC4	7,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	2.125%	09/06/2022		7,165,900.00	47,517.36	7,213,417.36	1.93%	0.12%	3.33	1.19	1.17	AA+ Aaa AAA

Holdings by Maturity & Ratings

City of Lacey | Total Aggregate Portfolio

June 30, 2021

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
912828M80	3,000,000.00	UNITED STATES TREASURY	2.000%	11/30/2022		3,077,580.00	5,081.97	3,082,661.97	1.66%	0.17%	1.42	1.42	1.40	AA+ Aaa AAA
495260L74	1,690,000.00	KING CNTY WASH SCH DIST NO 414 LAKE WASHINGTON	4.000%	12/01/2022		1,782,713.40	5,633.33	1,788,346.73	1.09%	0.13%	0.83	1.42	1.39	AA+ Aaa NA
720424ZQ6	590,000.00	PIERCE CNTY WASH SCH DIST NO 010 TACOMA	0.509%	12/01/2022		592,572.40	250.26	592,822.66	0.51%	0.20%	0.27	1.42	1.41	AA+ Aaa NA
045167ES8	2,500,000.00	ASIAN DEVELOPMENT BANK	1.625%	01/24/2023		2,553,200.00	17,717.01	2,570,917.01	0.20%	0.26%	1.19	1.57	1.54	AAA Aaa AAA
313382AX1	6,000,000.00	FEDERAL HOME LOAN BANKS	2.125%	03/10/2023		6,189,060.00	39,312.50	6,228,372.50	0.94%	0.26%	2.88	1.69	1.66	AA+ Aaa AAA
91282CBX8	4,000,000.00	UNITED STATES TREASURY	0.125%	04/30/2023		3,992,520.00	842.39	3,993,362.39	0.14%	0.23%	1.85	1.83	1.83	AA+ Aaa AAA
68609TMK1	1,000,000.00	OREGON ST	1.733%	05/01/2023		1,026,890.00	2,888.33	1,029,778.33	1.73%	0.26%	0.48	1.84	1.81	AA+ Aa1 AA+
4581X0DM7	4,000,000.00	INTER-AMERICAN DEVELOPMENT BANK	0.500%	05/24/2023		4,016,920.00	2,055.56	4,018,975.56	0.23%	0.28%	1.86	1.90	1.89	AAA Aaa NA
3133ELG81	3,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	0.300%	06/08/2023		3,002,370.00	575.00	3,002,945.00	0.37%	0.26%	1.39	1.94	1.93	AA+ Aaa AAA
938429V46	500,000.00	WASHINGTON CNTY ORE SCH DIST NO 48J BEAVERTON	0.569%	06/15/2023		502,455.00	126.44	502,581.44	0.57%	0.32%	0.23	1.96	1.95	AA+ Aa1 NA
3137EAES4	3,000,000.00	FEDERAL HOME LOAN MORTGAGE CORP	0.250%	06/26/2023		2,999,940.00	104.17	3,000,044.17	0.29%	0.25%	1.39	1.99	1.98	AA+ Aaa AAA
57582RF84	570,000.00	MASSACHUSETTS (COMMONWEALTH OF)	0.508%	07/01/2023		572,525.10	1,447.80	573,972.90	0.51%	0.29%	0.27	2.00	1.99	AA Aa1 AA+
3135G05G4	3,000,000.00	FEDERAL NATIONAL MORTGAGE ASSOCIATION	0.250%	07/10/2023		3,000,030.00	3,562.50	3,003,592.50	0.29%	0.25%	1.39	2.03	2.02	AA+ Aaa AAA

Holdings by Maturity & Ratings

City of Lacey | Total Aggregate Portfolio

June 30, 2021

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
89114QC48	2,000,000.00	TORONTO-DOMINION BANK	3.500%	07/19/2023		2,125,920.00	31,500.00	2,157,420.00	0.36%	0.42%	1.00	2.05	1.97	AA- Aa1 AA
9128284X5	4,000,000.00	UNITED STATES TREASURY	2.750%	08/31/2023		4,212,960.00	36,766.30	4,249,726.30	0.22%	0.29%	1.96	2.17	2.10	AA+ Aaa AAA
3137EAEW5	4,000,000.00	FEDERAL HOME LOAN MORTGAGE CORP	0.250%	09/08/2023		3,996,560.00	3,138.89	3,999,698.89	0.26%	0.29%	1.85	2.19	2.18	AA+ Aaa AAA
882830AS1	1,000,000.00	TEXAS TRANSN COMMN	0.410%	10/01/2023		1,001,330.00	1,025.00	1,002,355.00	0.41%	0.35%	0.46	2.25	2.24	NA Aaa AAA
3137EAEY1	3,000,000.00	FEDERAL HOME LOAN MORTGAGE CORP	0.125%	10/16/2023		2,988,600.00	781.25	2,989,381.25	0.23%	0.29%	1.38	2.30	2.29	AA+ Aaa AAA
3137EAEZ8	5,000,000.00	FEDERAL HOME LOAN MORTGAGE CORP	0.250%	11/06/2023		4,995,300.00	1,909.72	4,997,209.72	0.19%	0.29%	2.31	2.35	2.34	AA+ Aaa AAA
720424D56	700,000.00	PIERCE CNTY WASH SCH DIST NO 010 TACOMA	0.476%	12/01/2023		701,148.00	277.67	701,425.67	0.48%	0.41%	0.32	2.42	2.40	AA+ Aaa NA
3137EAFA2	3,000,000.00	FEDERAL HOME LOAN MORTGAGE CORP	0.250%	12/04/2023		2,996,520.00	562.50	2,997,082.50	0.22%	0.30%	1.39	2.43	2.42	AA+ Aaa AAA
91282CBE0	5,000,000.00	UNITED STATES TREASURY	0.125%	01/15/2024		4,969,750.00	2,883.29	4,972,633.29	0.18%	0.36%	2.30	2.54	2.53	AA+ Aaa AAA
91282CBM2	4,000,000.00	UNITED STATES TREASURY	0.125%	02/15/2024		3,974,240.00	1,878.45	3,976,118.45	0.32%	0.37%	1.84	2.63	2.62	AA+ Aaa AAA
459058GQ0	4,000,000.00	INTERNATIONAL BANK FOR	2.500%	03/19/2024		4,219,800.00	28,333.33	4,248,133.33	0.41%	0.46%	1.96	2.72	2.63	AAA Aaa NA
91282CBV2	4,000,000.00	UNITED STATES TREASURY	0.375%	04/15/2024		3,995,320.00	3,155.74	3,998,475.74	0.36%	0.42%	1.85	2.79	2.77	AA+ Aaa AAA
91282CCC3	3,500,000.00	UNITED STATES TREASURY	0.250%	05/15/2024		3,480,855.00	1,117.53	3,481,972.53	0.33%	0.44%	1.61	2.88	2.86	AA+ Aaa AAA
045167FE8	1,500,000.00	ASIAN DEVELOPMENT BANK	0.375%	06/11/2024		1,494,720.00	343.75	1,495,063.75	0.40%	0.50%	0.69	2.95	2.93	AAA Aaa AAA
Total	**214,533,197.12**		**0.777%**			**215,964,876.02**	**371,685.79**	**216,336,561.81**	**0.55%**	**0.24%**	**100.00**	**0.93**	**0.92**	

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. G A 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 pape , 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 clien 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 situatio

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 agenc . Investment in securities involves risks, including the possible loss of the amount invested.

GPA GOVERNMENT PORTFOLIO ADVISORS