



FINANCE & ECONOMIC DEVELOPMENT COMMITTEE
TUESDAY, JULY 26, 2022
8:30 A.M.
REMOTE AND IN PERSON ATTENDANCE

The Finance & Economic Development Committee meeting will be conducted remotely and in person.

The public may attend the meeting in person in the Council Chambers at Lacey City Hall, 420 College SE, Lacey, Washington, or you may view or listen to the meeting by using one of the following platforms:

Live through Zoom: <https://us02web.zoom.us/j/82262051857>

Live or as a recording on YouTube: <https://youtu.be/IM4Ot3z-inI>

Listen via telephone: **(888) 788-0099** or **(877) 853-5247** (Webinar ID: **822 6205 1857**)

AGENDA

2022 2ND QUARTER INVESTMENT REPORT

TROY WOO, FINANCE DIRECTOR
(STAFF REPORT)

2023 BUDGET CALENDAR

TROY WOO, FINANCE DIRECTOR
(STAFF REPORT)



**FINANCE & ECONOMIC
DEVELOPMENT COMMITTEE**
July 26, 2022

SUBJECT: Second Quarter 2022 Investment Report

RECOMMENDATION: Review Second Quarter Investment Report

STAFF CONTACT: Scott Spence, City Manager ^{SS}
Troy Woo, Finance Director ^{TW}

ORIGINATED BY: Troy Woo, Finance Director

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 2022 second quarter report has been prepared by the City's investment advisor, Government Portfolio Advisors (GPA). The three main components of the quarterly report include the following:

1. The report opens with a market commentary, market outlook, current investment policy compliance report, updates to the strategic outlook, and portfolio positioning.
2. There are sections illustrating the quarterly asset allocation changes and historical balances.

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

In summary, Lacey's core fund portfolio narrowly outperformed the investment strategy benchmark. The core fund net total return for the quarter was -0.58 percent. The benchmark total return for the period was -0.65 percent. The net total return includes changes to market value, which decreased due to the rising interest rate environment. The total portfolio *unrealized loss* at the end of the quarter was \$5,899,808.

- The Federal Reserve outlook changed considerably during the second quarter. Their actions reflected a major shift with two rate increases totaling 1.25 percent during the quarter. In contrast, the projection included in the fourth quarter 2021 Finance Committee report anticipated three rate hikes before the end of 2022. The first half of 2022 has already had three rate hikes and the market outlook for remaining Federal Reserve rates actions is continued aggressive rate hikes throughout the remainder of 2022. There are expectations for the Federal Reserve rate to be in the 3.5 to 4.0 percent range by the end of 2022. The Federal Reserve rate at the end of the second quarter 2022 was 1.5 percent to 1.75 percent.
- First quarter 2022 Gross Domestic Product (GDP) is estimated to have contracted 1.6 percent. The Atlanta Federal Reserve's model calls for a second consecutive decline for the second quarter, which would be considered a recession by one definition. The Bureau of Economic Analysis second quarter GDP Advance Estimate is scheduled to be released on July 28.
- The interest rate curve flattened out near 3.0 percent beyond the one-year point.
- The total portfolio book yield increased from 0.656 percent to 0.785 percent.
- At of the end of the second quarter 2022, the core fund portfolio duration was 1.941 years, which is lower than the benchmark duration of 2.096 years. The core fund continues to adjust to move from the 0-3 year benchmark to the 0-5 year benchmark investment strategy change endorsed by the Finance Committee at its September 2021 committee meeting. The strategy will be to remain at or be slightly above the duration benchmark to take advantage of multi-year high yield levels in an environment of aggressive Federal Reserve rate increases and expected declining growth environment.

Quarterly Investment Report City of Lacey

June 30, 2022

Total Aggregate Portfolio

Market Commentary

Market Yields: Yields advanced higher in Q2 with 2-year and 10-year Treasury yields both increasing by approximately 65 basis points. The 2-year note ended the quarter at 2.96%, a level not seen since late 2008. Driving the move was continued hawkish rhetoric and action out of the FOMC and other key global central banks which led rate expectations higher. The backdrop moving forward for yields is increasingly divergent as economic growth and sentiment indicators point toward slowing activity and the potential for lower yields while inflation data continues to print well above central bank targets leaving room for more rate hikes. We expect more volatility in yields ahead as we get a better picture on the economy and the ultimate path for policy rates.

FOMC: The Fed had an active quarter as they lifted the federal funds rate by 125 basis points with a 50-basis point increase in May and a 75-basis point increase at the conclusion of their June meeting. They also officially began the process of reducing their balance sheet by allowing Treasury and agency mortgage-backed securities to begin rolling off upon maturity. The quick action is in response to the ongoing inflation dynamic that re-accelerated after the Russian invasion of Ukraine that sent food and energy prices higher. Fed officials have made it clear that their main focus is to bring price increases back in line with their 2% target for core inflation. We expect more outsized rate hikes in the coming quarter.

Employment and Inflation: Labor markets remain strong adding 1.1 million jobs during the quarter. Unemployment remains low at 3.6% while wage growth has leveled out at an annualized pace around 5%. Inflation readings continue to be elevated with the latest CPI report showing prices grew 8.6% year over year with the Fed's preferred measure, core PCE, coming in at 4.7%. The picture for inflation going forward remains murky as high housing costs will continue to be elevated given the lagged nature of their inclusion into the data while consumer goods prices appear set to cool. Market pricing for inflation has come down markedly in recent weeks reflecting a slowing economy that is expected to dent demand. The 5-year inflation breakeven rate derived from the Treasury inflation-protected securities market indicates inflation is expected to run at 2.5% over the next several years signaling confidence that inflation will revert toward lower levels.

Quarterly Yield Change

	09/30/21	12/31/21	03/31/22	06/30/22
3 month bill	0.03	0.03	0.48	1.63
2 year note	0.28	0.73	2.34	2.95
5 year note	0.97	1.26	2.46	3.04
10 year note	1.49	1.51	2.34	3.01

Economists' Survey Projections

	Q3-22	Q4-22	Q1-23	Q2-23
Real GDP	2.4	2.0	1.6	1.9
Core PCE (YOY%)	4.6	4.1	3.5	3.1
Unemployment	3.5	3.5	3.6	3.6

Economists' Survey Projections for Rates

	Q3-22	Q4-22	Q1-23	Q2-23
Fed Funds	2.85	3.45	3.7	3.75
2 Year	3.06	3.11	3.16	3.16
10 year	2.22	2.3	2.4	2.4

Market Outlook

GDP: Economic growth contracted by 1.6% in Q1 and estimates, according to the Atlanta Federal Reserve's GDPnow model, call for a consecutive decline in Q2. Leading growth lower, is a buildup in inventory levels, weak export markets, a cooling housing market and lower spending by consumers as they contend with higher interest rates and negative real wages. The outlook going forward doesn't look optimistic given the challenges impacting growth are not set to improve near term. The potential bright side of a weaker growth outlook is that it should begin to drag inflationary pressures down in the months ahead and allow the Fed to slow or halt their tightening campaign.

Fed Funds: The fed funds futures market has seen increased volatility given the rapid change in economic data. At peak during the quarter, futures markets were pricing the Fed to get the funds rate up around 4% in early 2023. Disappointing economic data and declining commodity prices led to lower expectations where markets are now pricing the Fed to raise rates to approximately 3.00%-3.50%. Given the forward-looking growth and price indicators, we expect the Fed will be challenged to push the rate up into the 4% range and may need to pause later this year.

Two-year Yield Expectations: The growth and inflation backdrop should lead to continued volatility in the 2-year yield. If growth and inflation remain buoyant, we anticipate the 2-year yield should push into the 3.0%-3.5% range given the Fed would seek to push the funds rate north of 3% to cool demand. However, if the growth backdrop continues to deteriorate, we anticipate the market will be quick to take rate hikes out of the market leading the 2-year to trade closer to 2.5%.

Portfolio Positioning: We continue to advise clients to remain at, or slightly above, strategic duration targets to take advantage of multi-year high yield levels with a market pricing in an aggressive rate hiking path out of the Fed in the face of a declining growth environment. We are also increasingly finding value in the agency, corporate and municipal sectors with spreads also at multi-year high levels with strong fundamentals underpinning issuers despite the challenging backdrop.

Compliance Report

City of Lacey | Total Aggregate Portfolio



June 30, 2022

Category

Policy Diversification Constraint	Policy Limit	Actual Value*	Status
US Treasury Obligations Maximum % of Holdings	100.000	45.059	Compliant
US Agency Callable Securities Maximum % of Total Portfolio	31.500	0.000	Compliant
US Agency FFCB Issuer Concentration	35.000	4.757	Compliant
US Agency FHLB Issuer Concentration	35.000	2.865	Compliant
US Agency FHLMC Issuer Concentration	35.000	9.292	Compliant
US Agency FNMA Issuer Concentration	35.000	1.399	Compliant
US Agency Obligations - All Other Issuers Combined	35.000	0.000	Compliant
US Agency Obligations Issuer Concentration	35.000	9.292	Compliant
US Agency Obligations Maximum % of Holdings	35.000	18.313	Compliant
Supranationals - Issuer is ADB, IADB, IBRD, or IFC	0.000	0.000	Compliant
Supranationals Issuer Concentration	5.000	1.900	Compliant
Supranationals Maximum % of Holdings	10.000	5.645	Compliant
Municipal Bonds Issuer Concentration	5.000	0.818	Compliant
Municipal Bonds Maximum % of Holdings	30.000	2.860	Compliant
Municipal Bonds WA issues GO/Local and GO only Outside WA	0.000	0.000	Compliant
Municipal Issue Directly Internally or Interfund Loans	15.000	0.000	Compliant
Corporate Notes & Commercial Paper Foreign Exposure except Canada	2.000	0.000	Compliant
Corporate Notes & Commercial Paper Maximum % of Holdings	25.000	2.084	Compliant
Corporate Notes & Commercial Paper Single Issuer %	3.000	0.960	Compliant
Corporate Notes Ratings Minimum A-/A3/A- by All if rated	0.000	0.000	Compliant
Corporate Notes Split AA- to A- Issuer Concentration % (All must be rated at least A-) (2%)	2.000	0.960	Compliant
Certificates of Deposit Issuer Concentration	5.000	0.000	Compliant
Certificates of Deposit Maximum % of Holdings	20.000	0.000	Compliant
Banker's Acceptance Issuer Concentration	5.000	0.000	Compliant
Banker's Acceptance Maximum % of Holdings	10.000	0.000	Compliant
LGIP Maximum % of Holdings	100.000	8.151	Compliant
PDPC Bank Deposits Issuer Concentration	100.000	17.888	Compliant
PDPC Bank Deposits Maximum % of Holdings	20.000	17.888	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, 2022

Category

Policy Maturity Structure Constraint	Policy Limit	Actual %	Status
Maturity Constraints Under 30 days Minimum % of Total Portfolio	10.000	26.996	Compliant
Maturity Constraints Under 5.5 years Minimum % of Total Portfolio	100.000	100.000	Compliant
Maturity Constraints Under 1 Year Minimum % of Total Portfolio	25.000	46.314	Compliant
Policy Maturity Constraint	Policy Limit	Actual Term	Status
US Treasury Maximum Maturity At Time of Purchase (years)	5.500	4.973	Compliant
US Agency Maximum Maturity At Time of Purchase (years)	5.500	3.137	Compliant
Supranationals Maximum Maturity At Time of Purchase (years)	5.500	3.019	Compliant
Municipals Maximum Maturity At Time of Purchase (years)	5.500	3.485	Compliant
Corporate Maximum Maturity At Time of Purchase (years)	5.250	4.937	Compliant
Corporate Note Portfolio Duration (years)	3.000	2.723	Compliant
Commercial Paper Maximum Maturity At Time of Purchase (days)	270.000	0.000	Compliant
Commercial Paper Over 100 days Minimum Long Term Rating AA-/Aa3/AA- by all 3	0.000	0.000	Compliant
Certificates of Deposit Maximum Maturity At Time of Purchase (years)	5.500	0.000	Compliant
Banker's Acceptance Maximum Maturity At Time of Purchase (days)	180.000	0.000	Compliant
Weighted Average Maturity (years)	2.000	1.480	Compliant
Policy Credit Constraint			Status
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 Single A with Negative Outlook Cannot Purchase			Compliant
Commercial Paper Ratings Minimum ST Rating A1/P1/F1 (Rated by 2 NRSROs)			Compliant

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Strategic Outlook

- The economic environment deteriorated in the second quarter leading to concerns about whether we are set to enter a recessionary period. Consumer demand and sentiment remain weak while the rate sensitive housing and auto markets appear set to cool as well. Despite the backdrop, the labor market remains strong.
- Spread sectors underperformed in the second quarter as financial tightening and recession concerns led investors to re-price risk. While there is room for wider levels, we find value for long-term buy and hold investors at these levels in corporate, agency and municipal securities.
- Commodity prices generally declined in the second quarter and should provide relief in coming months on the inflation front. Despite relief in the pipeline, we expect the Fed will continue to be hawkish until there is clear evidence that inflation is set to meaningfully decline.

Portfolio Positioning

- The interest rate curve has flattened out around 3% beyond the 1-year point giving investors an opportunity to lock in yields at multi-year high levels.
- Agency, corporate, municipal spreads widened out during the quarter providing an attractive opportunity for long-term investors to add high-quality issuers into portfolios.
- The total portfolio book yield increased from 0.656 to 0.785.
- The total portfolio unrealized loss ended the quarter at -\$5,899,808.
- The core portfolio duration decreased over the quarter from 1.979 last quarter to 1.941 this quarter. The benchmark duration ended the quarter at 2.096.
- Net total return for the core portfolio, which includes change in market value and interest income, was -0.58%. The benchmark total return for the period was -0.65%.

Strategic Quarterly Update

City of Lacey | Total Aggregate Portfolio



June 30, 2022

Metric	Previous	Current
Strategy	03/31/2022	06/30/2022
Effective Duration		
Investment Core	1.98	1.94
Benchmark Duration	2.14	2.10
Total Effective Duration	1.47	1.44
Total Return (Net of Fees %)*		
Investment Core	(2.36)	(0.58)
Benchmark Return	(2.53)	(0.65)
Total Portfolio Performance	(1.75)	(0.42)
<i>*Changes in Market Value include net unrealized and realized gains/losses.</i>		
Maturity Total Portfolio		
Average Maturity Total Holdings	1.51	1.48

Metric	Previous	Current
Book Yield	03/31/2022	06/30/2022
Ending Book Yield		
Investment Core	0.82%	0.88%
Liquidity	0.20%	0.50%
Total Book Yield	0.66%	0.78%
Values		
	03/31/2022	06/30/2022
Market Value + Accrued		
Investment Core	156,157,567	154,797,740
Liquidity	54,315,392	54,357,438
Total MV + Accrued	210,472,959	209,155,178
Net Unrealized Gain/Loss		
Total Net Unrealized Gain/Loss	(4,616,302)	(5,899,808)

Asset Allocation Change over Quarter

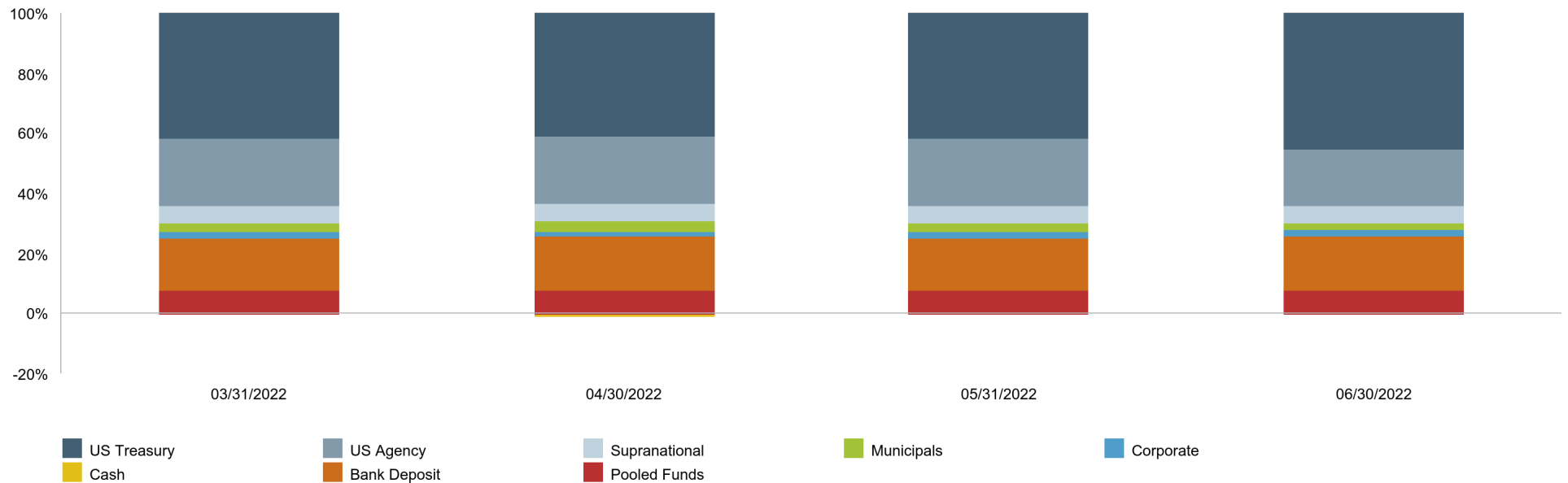


June 30, 2022

City of Lacey | Total Aggregate Portfolio

Asset Allocation Changes

Security Type	03/31/2022		06/30/2022		Change	
	Market Value + Accrued	% of Portfolio	Market Value + Accrued	% of Portfolio	Market Value + Accrued	% of Portfolio
US Treasury	86,163,509.57	40.94%	94,254,111.80	45.06%	8,090,602.23	4.13%
US Agency	47,533,449.31	22.58%	38,327,707.22	18.33%	(9,205,742.08)	(4.26%)
Supranational	11,895,043.40	5.65%	11,833,088.40	5.66%	(61,955.00)	0.01%
Municipals	7,057,874.46	3.35%	5,983,135.94	2.86%	(1,074,738.53)	(0.49%)
Corporate	3,507,690.00	1.67%	4,399,696.39	2.10%	892,006.39	0.44%
Cash	0.02	0.00%	0.00	0.00%	(000.02)	(0.00%)
Bank Deposit	37,329,469.14	17.74%	37,341,569.14	17.85%	12,100.00	0.12%
Pooled Funds	16,985,922.73	8.07%	17,015,868.77	8.14%	29,946.04	0.07%
Total	210,472,958.63	100.00%	209,155,177.66	100.00%	(1,317,780.96)	



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

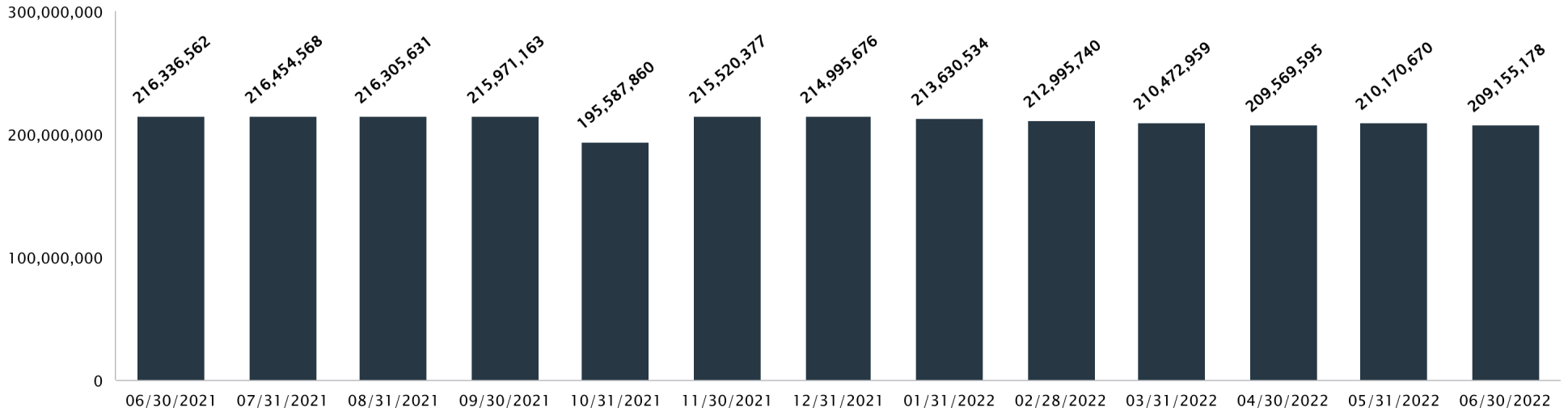
Historical Balances

City of Lacey | Total Aggregate Portfolio



June 30, 2022

Market Value



Market Value and Return

Period Begin	Period End	Market Value + Accrued	Interest Income	Book Yield	Effective Duration	Maturity in Years
06/01/2021	06/30/2021	216,336,562	141,191	0.55%	0.92	0.93
07/01/2021	07/31/2021	216,454,568	142,084	0.56%	0.97	0.98
08/01/2021	08/31/2021	216,305,631	128,981	0.51%	0.92	0.93
09/01/2021	09/30/2021	215,971,163	127,922	0.51%	0.89	0.90
10/01/2021	10/31/2021	195,587,860	129,859	0.72%	1.75	1.77
11/01/2021	11/30/2021	215,520,377	142,390	0.66%	1.53	1.55
12/01/2021	12/31/2021	214,995,676	141,615	0.62%	1.53	1.55
01/01/2022	01/31/2022	213,630,534	135,169	0.61%	1.51	1.53
02/01/2022	02/28/2022	212,995,740	127,678	0.62%	1.45	1.47
03/01/2022	03/31/2022	210,472,959	134,968	0.66%	1.47	1.51
04/01/2022	04/30/2022	209,569,595	135,752	0.68%	1.42	1.46
05/01/2022	05/31/2022	210,170,670	142,197	0.70%	1.36	1.40
06/01/2022	06/30/2022	209,155,178	147,405	0.78%	1.44	1.48

Summary Overview

City of Lacey | Total Aggregate Portfolio

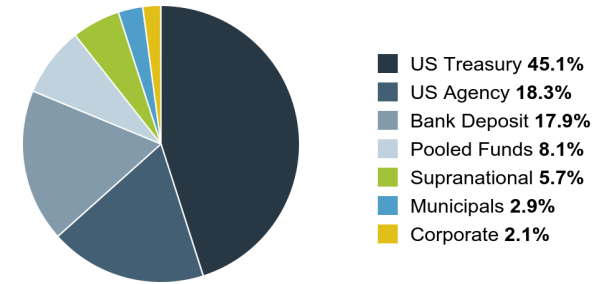


June 30, 2022

Portfolio Characteristics

Metric	Value
Cash and Cash Equivalents	54,357,437.91
Investments	154,797,739.75
Book Yield	0.78%
Market Yield	2.89%
Effective Duration	1.44
Years to Maturity	1.48
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	160,800,000.00	160,299,867.34	160,838,963.72	154,400,059.60	(5,899,807.74)	397,680.15	0.88%	1.94	2.10	ICE BofA 0-5 Year US Treasury Index
LACEY-Liquidity	54,357,437.91	54,357,437.91	54,357,437.91	54,357,437.91	0.00	0.00	0.50%	0.01	0.09	ICE BofA US 1-Month Treasury Bill Index
Total	215,157,437.91	214,657,305.25	215,196,401.63	208,757,497.51	(5,899,807.74)	397,680.15	0.78%	1.44	1.57	

Portfolio Activity

City of Lacey | Total Aggregate Portfolio



June 30, 2022

Accrual Activity Summary

	Quarter to Date	Fiscal Year to Date (01/01/2022)
Beginning Book Value	214,783,295.48	215,151,993.97
Maturities/Calls	(10,000,000.00)	(18,000,000.00)
Purchases	9,881,456.88	17,561,303.60
Sales	0.00	0.00
Change in Cash, Payables, Receivables	42,046.02	59,984.37
Amortization/Accretion	(49,493.13)	(115,976.68)
Realized Gain (Loss)	0.00	0.00
Ending Book Value	214,657,305.25	214,657,305.25

Fair Market Activity Summary

	Quarter to Date	Fiscal Year to Date (01/01/2022)
Beginning Market Value	210,166,993.89	214,616,447.94
Maturities/Calls	(10,000,000.00)	(18,000,000.00)
Purchases	9,881,456.88	17,561,303.60
Sales	0.00	0.00
Change in Cash, Payables, Receivables	42,046.02	59,984.37
Amortization/Accretion	(49,493.13)	(115,976.68)
Change in Net Unrealized Gain (Loss)	(1,283,506.15)	(5,364,261.72)
Net Realized Gain (Loss)	0.00	0.00
Ending Market Value	208,757,497.51	208,757,497.51

Maturities/Calls	Market Value
Quarter to Date	(10,000,000.00)
Fiscal Year to Date	(18,000,000.00)

Purchases	Market Value
Quarter to Date	9,881,456.88
Fiscal Year to Date	17,561,303.60

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

Return Management-Income Detail

City of Lacey | Total Aggregate Portfolio



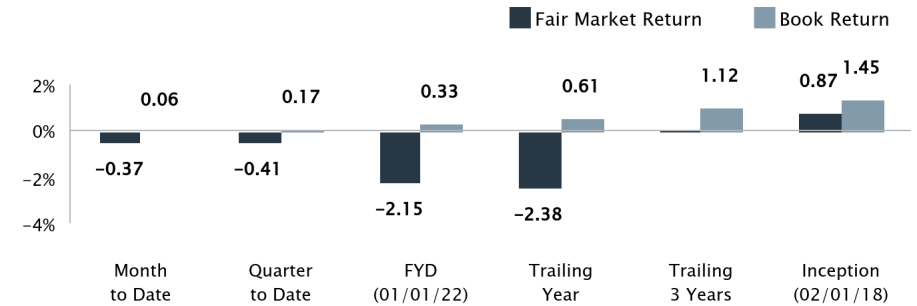
June 30, 2022

Accrued Book Return

	Quarter to Date	Fiscal Year to Date (01/01/2022)
Amortization/Accretion	(49,493.13)	(115,976.68)
Interest Earned	425,353.67	823,168.09
Realized Gain (Loss)	0.00	0.00
Book Income	375,860.53	707,191.40
Average Portfolio Balance	209,163,117.45	210,853,651.93
Book Return for Period	0.17%	0.33%

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 (01/01/2022)
Market Value Change	(1,283,506.15)	(5,364,261.72)
Amortization/Accretion	(49,493.13)	(115,976.68)
Interest Earned	425,353.67	823,168.09
Fair Market Earned Income	(858,152.48)	(4,541,093.63)
Average Portfolio Balance	209,163,117.45	210,853,651.93
Fair Market Return for Period	(0.41%)	(2.15%)

Interest Income

	Quarter to Date	Fiscal Year to Date (01/01/2022)
Beginning Accrued Interest	305,964.74	379,228.30
Coupons Paid	369,811.11	861,072.29
Purchased Accrued Interest	36,172.84	56,356.05
Sold Accrued Interest	0.00	0.00
Ending Accrued Interest	397,680.15	397,680.15
Interest Earned	425,353.67	823,168.09

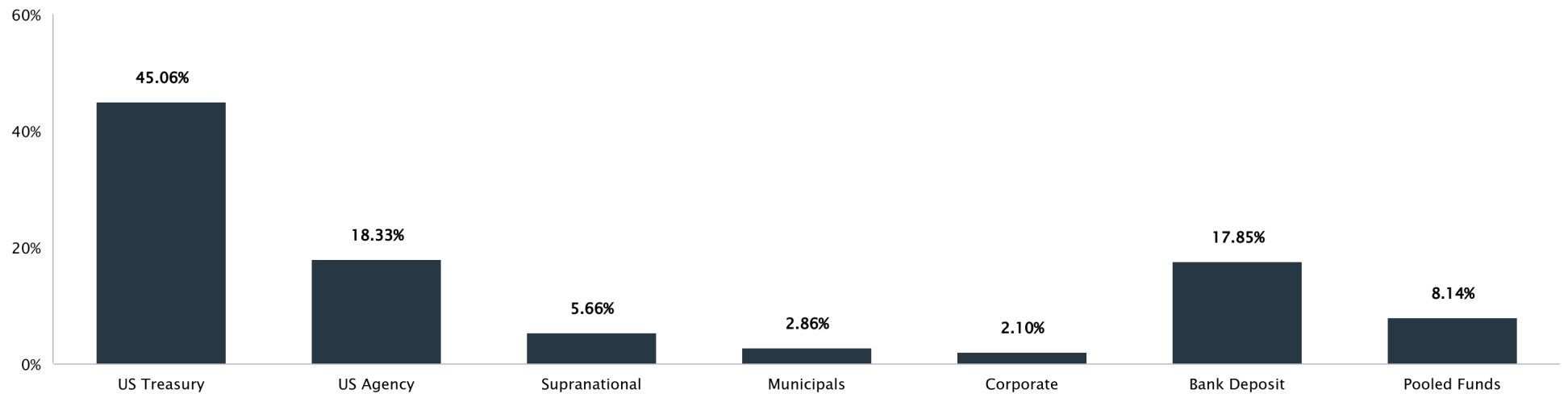
Security Type Distribution

City of Lacey | Total Aggregate Portfolio

Security Type Distribution

Security Type	Par Amount	Book Yield	Market Value + Accrued	% of Market Value + Accrued
US Treasury	99,250,000.00	1.00%	94,254,111.80	45.06%
US Agency	39,000,000.00	0.67%	38,327,707.22	18.33%
Supranational	12,000,000.00	0.30%	11,833,088.40	5.66%
Municipals	6,050,000.00	0.86%	5,983,135.94	2.86%
Corporate	4,500,000.00	1.86%	4,399,696.39	2.10%
Bank Deposit	37,341,569.14	0.13%	37,341,569.14	17.85%
Pooled Funds	17,015,868.77	1.32%	17,015,868.77	8.14%
Total	215,157,437.91	0.78%	209,155,177.66	100.00%

Security Type Distribution



Risk Management-Credit/Issuer

City of Lacey | Total Aggregate Portfolio

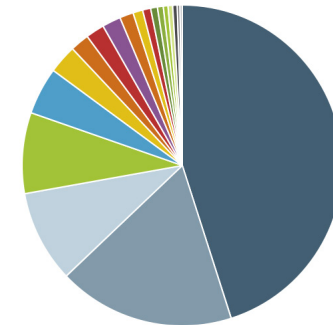


June 30, 2022

Credit Rating S&P/Moody's/Fitch

	Market Value + Accrued	%
S&P		
A	1,416,302.50	0.68
AA	557,642.40	0.27
AA+	137,985,191.45	65.97
AA-	2,035,620.00	0.97
AAA	11,833,088.40	5.66
NA	55,327,332.91	26.45
Moody's		
A2	1,416,302.50	0.68
Aa1	2,040,432.18	0.98
Aa2	2,035,620.00	0.97
Aaa	149,305,385.07	71.38
NA	54,357,437.91	25.99
Fitch		
A	1,416,302.50	0.68
AA	2,035,620.00	0.97
AA+	1,551,240.73	0.74
AAA	137,474,973.54	65.73
NA	66,677,040.89	31.88
Total	209,155,177.66	100.00

Issuer Concentration



- United States **45.1%**
- COLUMBIA BANK DEPOSIT **17.9%**
- Federal Home Loan Mortgage Corporation **9.3%**
- WASHINGTON LGIP **8.1%**
- Farm Credit System **4.8%**
- Federal Home Loan Banks **2.9%**
- International Bank for Reconstruction and Development **1.9%**
- Asian Development Bank **1.9%**
- Inter-American Development Bank **1.9%**
- Federal National Mortgage Association **1.4%**
- The Toronto-Dominion Bank **1.0%**
- Lake Washington School District 414 **0.8%**
- Deere & Company **0.7%**
- Pierce County Washington School District No 010 Tacoma **0.6%**
- State of Oregon **0.5%**
- State of Texas **0.5%**
- Apple Inc. **0.5%**
- Commonwealth of Massachusetts **0.3%**
- Beaverton School District **0.2%**

Risk Management-Maturity/Duration

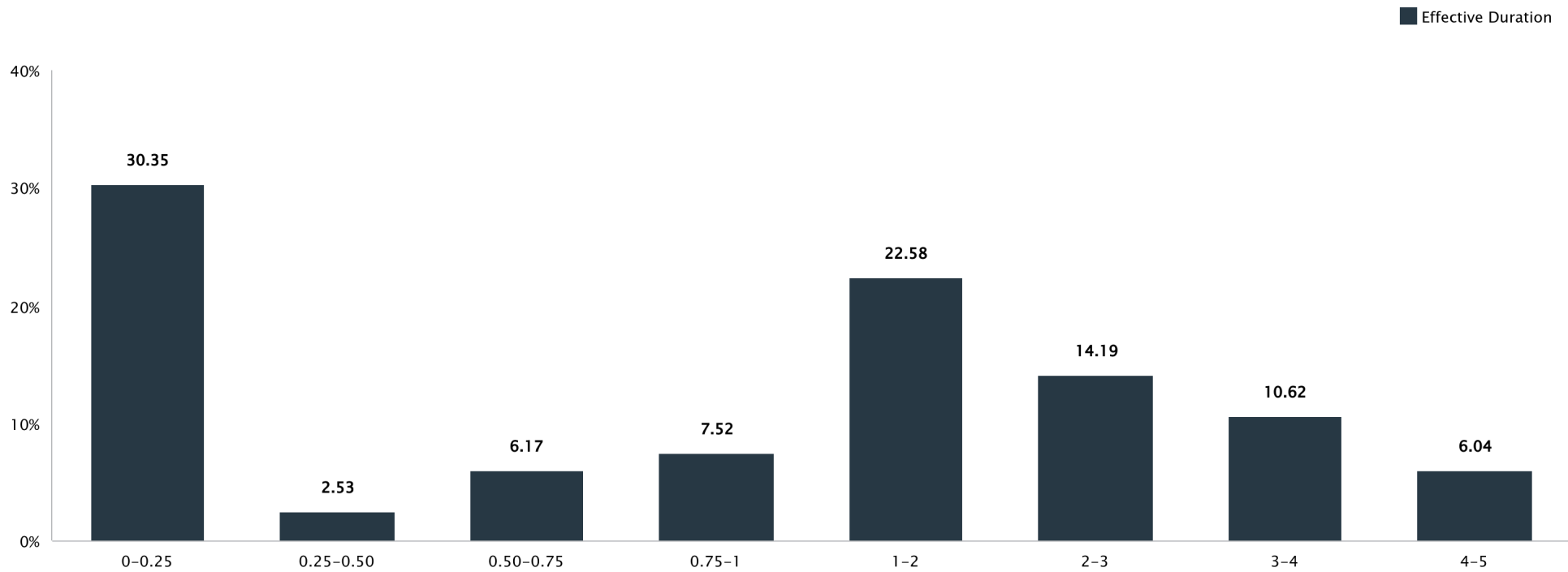
City of Lacey | Total Aggregate Portfolio



June 30, 2022



Distribution by Effective Duration



Holdings by Maturity & Ratings



City of Lacey | Total Aggregate Portfolio

June 30, 2022

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	37,341,569.14	COLUMBIA BANK DEPOSIT	0.130%	06/30/2022		37,341,569.14	0.00	37,341,569.14	0.13%		17.85	0.01	0.01	NA NA NA
WA_LGIP	17,015,868.77	WASHINGTON LGIP	1.321%	06/30/2022		17,015,868.77	0.00	17,015,868.77	1.32%		8.14	0.01	0.01	NA NA NA
3137EAET2	2,000,000.00	FEDERAL HOME LOAN MORTGAGE CORP	0.125%	07/25/2022		1,998,220.00	1,083.33	1,999,303.33	0.21%	1.41%	0.96	0.07	0.07	AA+ Aaa AAA
3133EKPC4	7,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	2.125%	09/06/2022		7,003,290.00	47,517.36	7,050,807.36	1.93%	1.86%	3.37	0.19	0.18	AA+ Aaa AAA
912828M80	3,000,000.00	UNITED STATES TREASURY	2.000%	11/30/2022		2,995,320.00	5,081.97	3,000,401.97	1.66%	2.37%	1.43	0.42	0.41	AA+ Aaa AAA
495260L74	1,690,000.00	KING CNTY WASH SCH DIST NO 414 LAKE WASHINGTON	4.000%	12/01/2022		1,707,930.90	5,633.33	1,713,564.23	1.09%	1.45%	0.82	0.42	0.42	AA+ Aaa NA
720424ZQ6	590,000.00	PIERCE CNTY WASH SCH DIST NO 010 TACOMA	0.509%	12/01/2022		585,008.60	250.26	585,258.86	0.51%	2.55%	0.28	0.42	0.42	AA+ Aaa NA
045167ES8	2,500,000.00	ASIAN DEVELOPMENT BANK	1.625%	01/24/2023		2,482,375.00	17,717.01	2,500,092.01	0.20%	2.89%	1.20	0.57	0.55	AAA Aaa AAA
91282CBN0	4,500,000.00	UNITED STATES TREASURY	0.125%	02/28/2023		4,423,545.00	1,880.10	4,425,425.10	0.17%	2.71%	2.12	0.67	0.66	AA+ Aaa AAA
313382AX1	6,000,000.00	FEDERAL HOME LOAN BANKS	2.125%	03/10/2023		5,980,740.00	39,312.50	6,020,052.50	0.94%	2.59%	2.88	0.69	0.68	AA+ Aaa AAA
91282CBX8	4,000,000.00	UNITED STATES TREASURY	0.125%	04/30/2023		3,910,000.00	842.39	3,910,842.39	0.14%	2.87%	1.87	0.83	0.82	AA+ Aaa AAA
68609TMK1	1,000,000.00	OREGON ST	1.733%	05/01/2023		990,710.00	2,888.33	993,598.33	1.73%	2.86%	0.48	0.84	0.82	AA+ Aa1 AA+
4581X0DM7	4,000,000.00	INTER-AMERICAN DEVELOPMENT BANK	0.500%	05/24/2023		3,914,040.00	2,055.56	3,916,095.56	0.23%	2.94%	1.87	0.90	0.89	AAA Aaa NA
3133ELG81	3,000,000.00	FEDERAL FARM CREDIT BANKS FUNDING CORP	0.300%	06/08/2023		2,927,190.00	575.00	2,927,765.00	0.37%	2.94%	1.40	0.94	0.92	AA+ Aaa AAA

Holdings by Maturity & Ratings



June 30, 2022

City of Lacey | Total Aggregate Portfolio

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
938429V46	500,000.00	WASHINGTON CNTY ORE SCH DIST NO 48J BEAVERTON	0.569%	06/15/2023		489,065.00	126.44	489,191.44	0.57%	2.90%	0.23	0.96	0.94	AA+ Aa1 NA
3137EAES4	3,000,000.00	FEDERAL HOME LOAN MORTGAGE CORP	0.250%	06/26/2023		2,919,840.00	104.17	2,919,944.17	0.29%	3.01%	1.40	0.99	0.97	AA+ Aaa AAA
57582RF84	570,000.00	MASSACHUSETTS (COMMONWEALTH OF)	0.508%	07/01/2023		556,194.60	1,447.80	557,642.40	0.51%	2.98%	0.27	1.00	0.98	AA Aa1 AA+
3135G05G4	3,000,000.00	FEDERAL NATIONAL MORTGAGE ASSOCIATION	0.250%	07/10/2023		2,920,470.00	3,562.50	2,924,032.50	0.29%	2.89%	1.40	1.03	1.01	AA+ Aaa AAA
89114QC48	2,000,000.00	TORONTO-DOMINION BANK	3.500%	07/19/2023		2,004,120.00	31,500.00	2,035,620.00	0.36%	3.30%	0.97	1.05	1.01	AA- Aa2 AA
9128284X5	4,000,000.00	UNITED STATES TREASURY	2.750%	08/31/2023		3,989,840.00	36,766.30	4,026,606.30	0.22%	2.97%	1.93	1.17	1.13	AA+ Aaa AAA
3137EAEW5	4,000,000.00	FEDERAL HOME LOAN MORTGAGE CORP	0.250%	09/08/2023		3,875,880.00	3,138.89	3,879,018.89	0.26%	2.92%	1.85	1.19	1.17	AA+ Aaa AAA
882830AS1	1,000,000.00	TEXAS TRANSN COMMN	0.410%	10/01/2023		968,870.00	1,025.00	969,895.00	0.41%	2.96%	0.46	1.25	1.23	NA Aaa AAA
3137EAEY1	3,000,000.00	FEDERAL HOME LOAN MORTGAGE CORP	0.125%	10/16/2023		2,893,710.00	781.25	2,894,491.25	0.23%	2.93%	1.38	1.30	1.27	AA+ Aa1 AAA
3137EAEZ8	5,000,000.00	FEDERAL HOME LOAN MORTGAGE CORP	0.250%	11/06/2023		4,823,250.00	1,909.72	4,825,159.72	0.19%	2.94%	2.31	1.35	1.33	AA+ Aaa AAA
720424D56	700,000.00	PIERCE CNTY WASH SCH DIST NO 010 TACOMA	0.476%	12/01/2023		673,708.00	277.67	673,985.67	0.48%	3.20%	0.32	1.42	1.39	AA+ Aaa NA
3137EAF2	3,000,000.00	FEDERAL HOME LOAN MORTGAGE CORP	0.250%	12/04/2023		2,886,570.00	562.50	2,887,132.50	0.22%	2.97%	1.38	1.43	1.40	AA+ Aaa AAA
91282CBE0	5,000,000.00	UNITED STATES TREASURY	0.125%	01/15/2024		4,786,150.00	2,883.29	4,789,033.29	0.18%	2.98%	2.29	1.54	1.52	AA+ Aaa AAA
91282CBM2	4,000,000.00	UNITED STATES TREASURY	0.125%	02/15/2024		3,821,720.00	1,878.45	3,823,598.45	0.32%	2.95%	1.83	1.63	1.60	AA+ Aaa AAA

Holdings by Maturity & Ratings



June 30, 2022

City of Lacey | Total Aggregate Portfolio

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
459058GQ0	4,000,000.00	INTERNATIONAL BANK FOR	2.500%	03/19/2024		3,965,400.00	28,333.33	3,993,733.33	0.41%	3.02%	1.91	1.72	1.66	AAA Aaa NA
91282CBV2	4,000,000.00	UNITED STATES TREASURY	0.375%	04/15/2024		3,818,440.00	3,155.74	3,821,595.74	0.36%	2.99%	1.83	1.79	1.76	AA+ Aaa AAA
91282CCC3	4,500,000.00	UNITED STATES TREASURY	0.250%	05/15/2024		4,276,935.00	1,436.82	4,278,371.82	0.36%	2.99%	2.05	1.88	1.84	AA+ Aaa AAA
045167FE8	1,500,000.00	ASIAN DEVELOPMENT BANK	0.375%	06/11/2024		1,422,855.00	312.50	1,423,167.50	0.40%	3.12%	0.68	1.95	1.91	AAA Aaa AAA
91282CCL3	4,500,000.00	UNITED STATES TREASURY	0.375%	07/15/2024		4,268,340.00	7,784.88	4,276,124.88	0.39%	2.99%	2.04	2.04	2.00	AA+ Aaa AAA
91282CDB4	2,500,000.00	UNITED STATES TREASURY	0.625%	10/15/2024		2,368,650.00	3,287.23	2,371,937.23	0.71%	3.01%	1.13	2.29	2.24	AA+ Aaa AAA
91282CDH1	2,000,000.00	UNITED STATES TREASURY	0.750%	11/15/2024		1,896,400.00	1,915.76	1,898,315.76	0.95%	3.03%	0.91	2.38	2.32	AA+ Aaa AAA
912828YY0	3,500,000.00	UNITED STATES TREASURY	1.750%	12/31/2024		3,391,990.00	166.44	3,392,156.44	0.80%	3.04%	1.62	2.50	2.42	AA+ Aaa AAA
912828Z52	2,500,000.00	UNITED STATES TREASURY	1.375%	01/31/2025		2,397,750.00	14,338.74	2,412,088.74	0.77%	3.03%	1.15	2.59	2.50	AA+ Aaa AAA
912828ZF0	3,500,000.00	UNITED STATES TREASURY	0.500%	03/31/2025		3,266,480.00	4,398.91	3,270,878.91	0.88%	3.05%	1.56	2.75	2.69	AA+ Aaa AAA
912828ZL7	2,500,000.00	UNITED STATES TREASURY	0.375%	04/30/2025		2,320,225.00	1,579.48	2,321,804.48	0.85%	3.04%	1.11	2.83	2.78	AA+ Aaa AAA
91282CEQ0	4,000,000.00	UNITED STATES TREASURY	2.750%	05/15/2025		3,969,360.00	14,048.91	3,983,408.91	2.91%	3.03%	1.90	2.87	2.73	AA+ Aaa AAA
912828ZW3	3,000,000.00	UNITED STATES TREASURY	0.250%	06/30/2025		2,762,100.00	20.38	2,762,120.38	0.94%	3.04%	1.32	3.00	2.95	AA+ Aaa AAA
91282CAB7	2,500,000.00	UNITED STATES TREASURY	0.250%	07/31/2025		2,295,400.00	2,607.04	2,298,007.04	0.91%	3.05%	1.10	3.08	3.03	AA+ Aaa AAA

Holdings by Maturity & Ratings



June 30, 2022

City of Lacey | Total Aggregate Portfolio

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
91282CAJ0	3,000,000.00	UNITED STATES TREASURY	0.250%	08/31/2025		2,746,890.00	2,506.79	2,749,396.79	1.34%	3.06%	1.31	3.17	3.11	AA+ Aaa AAA
9128284Z0	3,000,000.00	UNITED STATES TREASURY	2.750%	08/31/2025		2,973,180.00	27,574.73	3,000,754.73	2.94%	3.05%	1.43	3.17	2.98	AA+ Aaa AAA
91282CAM3	2,750,000.00	UNITED STATES TREASURY	0.250%	09/30/2025		2,512,482.50	1,728.14	2,514,210.64	0.99%	3.06%	1.20	3.25	3.19	AA+ Aaa AAA
91282CAT8	2,500,000.00	UNITED STATES TREASURY	0.250%	10/31/2025		2,278,125.00	1,052.99	2,279,177.99	0.98%	3.07%	1.09	3.34	3.27	AA+ Aaa AAA
91282CBH3	2,500,000.00	UNITED STATES TREASURY	0.375%	01/31/2026		2,273,250.00	3,910.57	2,277,160.57	1.04%	3.07%	1.09	3.59	3.50	AA+ Aaa AAA
91282CBQ3	2,500,000.00	UNITED STATES TREASURY	0.500%	02/28/2026		2,278,625.00	4,177.99	2,282,802.99	1.10%	3.07%	1.09	3.67	3.58	AA+ Aaa AAA
91282CBW0	2,500,000.00	UNITED STATES TREASURY	0.750%	04/30/2026		2,291,800.00	3,158.97	2,294,958.97	1.09%	3.07%	1.10	3.83	3.72	AA+ Aaa AAA
91282CCF6	2,500,000.00	UNITED STATES TREASURY	0.750%	05/31/2026		2,287,400.00	1,588.11	2,288,988.11	1.15%	3.07%	1.09	3.92	3.80	AA+ Aaa AAA
91282CCP4	2,500,000.00	UNITED STATES TREASURY	0.625%	07/31/2026		2,267,200.00	6,517.61	2,273,717.61	1.13%	3.07%	1.09	4.08	3.97	AA+ Aaa AAA
91282CCW9	2,500,000.00	UNITED STATES TREASURY	0.750%	08/31/2026		2,275,575.00	6,266.98	2,281,841.98	1.18%	3.06%	1.09	4.17	4.04	AA+ Aaa AAA
037833DN7	1,000,000.00	APPLE INC	2.050%	09/11/2026	07/11/2026	941,510.00	6,263.89	947,773.89	3.33%	3.56%	0.45	4.20	3.95	AA+ Aaa NA
91282CCZ2	2,000,000.00	UNITED STATES TREASURY	0.875%	09/30/2026		1,826,560.00	4,398.91	1,830,958.91	1.06%	3.07%	0.88	4.25	4.11	AA+ Aaa AAA
912828YQ7	1,500,000.00	UNITED STATES TREASURY	1.625%	10/31/2026		1,412,760.00	4,106.66	1,416,866.66	2.58%	3.07%	0.68	4.34	4.12	AA+ Aaa AAA
91282CDK4	2,000,000.00	UNITED STATES TREASURY	1.250%	11/30/2026		1,851,960.00	2,117.49	1,854,077.49	1.23%	3.05%	0.89	4.42	4.24	AA+ Aaa AAA

Holdings by Maturity & Ratings



June 30, 2022

City of Lacey | Total Aggregate Portfolio

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
912828Z78	2,000,000.00	UNITED STATES TREASURY	1.500%	01/31/2027		1,867,340.00	12,513.81	1,879,853.81	2.57%	3.06%	0.90	4.59	4.35	AA+ Aaa AAA
24422EWD7	1,500,000.00	JOHN DEERE CAPITAL CORP	2.350%	03/08/2027		1,405,140.00	11,162.50	1,416,302.50	3.02%	3.84%	0.68	4.69	4.34	A A2 A
91282CET4	2,000,000.00	UNITED STATES TREASURY	2.625%	05/31/2027		1,962,180.00	4,446.72	1,966,626.72	2.97%	3.04%	0.94	4.92	4.56	AA+ Aaa AAA
Total	215,157,437.91		0.876%			208,757,497.51	397,680.15	209,155,177.66	0.78%	2.89%	100.00	1.48	1.44	

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

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

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

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



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



Memo

Date: June 3, 2022

To: Department Directors, Managers, and Supervisors

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

Subject: Budget Call, Instructions, and Schedule for 2023 Budget Development

Due to a strong second half of 2021 and continued signs of a recovered local economy, with few exceptions, tax revenues and fee collections indicate the local economy remains resilient to the impacts of the ongoing COVID-19 pandemic. However, there are still reasons to remain cautious as some key economic indicators have lingering questions and there are signs that the recovery growth has peaked.

- The April U.S. inflation was 8.3 percent, which was lower than the previous month, which could be an indicator that national inflation has peaked or leveled off. However, the Seattle area inflation for April 2022 increased to 9.1 percent, so local inflation has yet to peak. The Seattle area has typically lagged behind the national inflation, so hopefully the local inflation will peak soon.
- At its May meeting, the Federal Reserve increased rates 0.50 percent, which is a strong move to lower inflation. *This rate increase is intended to slow down the economy. The intent of raising interest rates is to lower the amount of spending and borrowing.* It is expected rate increases will continue throughout 2022.
- The City's largest single source of sales tax, General Merchandise Stores increased 10.7% cash basis 2021 over 2020. However, after adjusting for the accrual basis, the General Merchandise Stores category increased just \$10,013 or 1.9% during the first quarter 2022. Adjusting for inflation, first quarter actual sales activity volume likely decreased.
- After finishing down 30.5% in 2021, new construction sales tax has rebounded with year-to-date 2022 increase of 31.3%. This is a good illustration of the cyclical nature of construction,

but it is expected multi-family development will continue to fuel this level of new construction sales tax throughout 2022.

- Admissions and gambling taxes are returning to normal levels, but are still below prepandemic levels. Through the first quarter 2022, admissions and gambling taxes are 81.3% and 75.7%, respectively, of 2019 collection levels.
- Through April 2022, Parks, Culture and Recreation fees are only 55.4% of the 2019 activity levels.
- The United States continues to experience a number of supply shortages, which is impacting availability and negatively impacting inflation.
- The job market remained extremely tight, which has placed upward pressure on wages and inflation. Job growth continues, but the national economy still has not recovered 1.2 million of the 22.3 million jobs lost at the peak of the pandemic in 2020.

On the expenditure side, operating costs are at a level very close to the 2021 level through April. However, it should be noted, the majority of the City's labor cost does not include cost of living adjustments and vacancies have been near 10 percent through 2022. Through May 2022, salaries and benefit budgets are only 34 percent expended. City-wide salaries and benefits could be as much as \$3 million underspent through May. In other words, if the City was fully staffed, expenditures would be significantly higher.

Summary and Direction

While the 2023 Budget is being developed, it is likely the economic landscape will be changing and difficult to interpret. The geopolitical news, inflation trends, workforce constraints, supply chain challenges, rising interest rates, inverted yield curves, and predictions of a recession will continue shift and change for the foreseeable future. All of this will make revenue projections difficult, which will make determining the sustainable level of funding available ongoing expenditures challenging.

- Geopolitical factors such as the war in eastern Europe and zero-COVID policies are causing worldwide supply challenges causing business disruptions and negatively impacting inflation.
- The next reported Seattle area inflation will be June 2022 and will be released mid-July, so it will be some time before understanding the local inflation.
- It is widely expected the Federal Reserve will increase rates 0.5 percent at its next meeting (June 14-15). Some economists are predicting a 0.5 percent hike in September. It is expected rates will be near 3.0 percent at year-end.
- The 2-year/10-year Treasury yield curve spread inverted on April 1, 2022 for the first time since 2019 and the 5-year/30-year inverted on March 28, 2022 for the first time since 2006.

Yield curve inversions have preceded all recessions, but not all inverted yield curves have led to a recession. Also, when recessions have occurred, they all haven't happened right away. In any case, it these recent yield curve inversions are worth noting.

- The second estimate for quarter one gross domestic product (GDP) shows a decrease of 1.5 percent. Recessions are significant declines in economic activity and generally are recognized as two consecutive quarters of economic decline.

If the Federal Reserve's rate increase works as intended with the local economy, the City's consumption-based revenues should be expected to decline. There is a significant portion of the General Fund's revenues which are consumption-based revenues. Examples 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 continue increase as inflation and supply shortages continue to affect prices. Nationally, inflation is expected to decline for the remainder of 2022, but remain historically high at year-end. In 2023, inflation is expected to continue to decline and end the year closer to the Federal Reserve's targeted inflation rate. Locally (Seattle), inflation has yet to peak it is expected to. Historically, the Seattle inflation lags behind the national trend.

The national labor market continues to add jobs and the unemployment rate is near the historically low pre-pandemic rate. The tight labor market is one of the factors of the high inflation rate. It is anticipated the labor market will relax as the Federal Reserve interest rate increases. In the short and mid-term, the City as an organization will hopefully see relief and begin to see the ongoing position vacancy rate return to lower levels. However, it should be acknowledged that despite hiring talented and highly qualified staff, it will take one to two years to return to the efficiency levels the organization was accustomed to.

GUIDANCE

Given the designed economic slowdown and delayed 2021/2022 projects due to supply challenges and ongoing staff turnover, the 2023 Budget process should be a reset year. All new initiatives or projects should be reconsidered or paused if not mandated or time sensitive. This will provide an opportunity to complete unfinished projects or reorder priorities established during the current budget period (i.e., 2022 Budget). Staffing requests made will be assessed on current vacancies/personnel levels within the department making the specific request as well as the financial sustainability of adding new personnel. 2023 Budget Guidance recognizes organizational capacity and departmental bandwidth with the goal of easing some of the challenges and constraints currently experienced.

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

Friday, June 3: Finance Director issues 2023 Budget "Call".

- Monday, June 27: Budget System will be open for use. Note: any minor increases must be accompanied with an offsetting reduction.
- Monday, June 27: Any Capital Facilities Project Forms that require the Engineering Department's assistance with scoping, cost estimates, and any other tasks necessary to complete the forms must be submitted to Ashley to allow for time prior to budget request due date. The form may be found on the Common Drive, <N:\Shared Rosters\Capital Project Request Form.PDF>.
- Friday, July 15: Capital Facilities Project Forms due to Ashley to determine scheduling and recommend prioritization within the full list of proposed and already scheduled City projects.
- Monday, July 25: Budget proposals are due. Please remember to include the Public Works Capital Facility Project form, if applicable.
- Friday, August 5: Estimates presented to City Manager for modifications, revisions, or additions.
- Aug 15 – Aug 26: Departmental Budget Reviews.
- Tuesday, August 23: Finance and Economic Development Committee - Final 2022 Budget Amendment Ordinance briefing.
- Thursday, Sept. 1: Final 2022 Budget Amendment Ordinance.
- Monday, Sep. 26: City Manager balances proposed 2023 Budget.
- Tuesday, Sept. 27: Finance and Economic Development Committee Budget Discussion – provide current information on estimates of revenues and preliminary expenditure requests by department.
- Thursday, October 6: 2023 Budget Workshop (Worksession to follow the Council Meeting)
- Friday, October 14: Proposed 2023 Budget and Budget Message are filed with City Clerk and City Council. Copies of 2023 Budget made available to the public.
- Monday, October 17: City Clerk publishes notice of filing of proposed budget.
- Thursday, October 20: 2023 Budget Presentation to City Council.
- Monday, October 24: City Clerk publishes first notice of November 3 public hearing on revenue sources.

- Tuesday, Oct. 25: 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, October 31: City Clerk publishes second notice of November 3 public hearing on revenue sources.
- Thursday, November 3: City Council to conduct public hearing on 2023 revenue sources, including consideration of possible increases in property tax revenues and utility rate increases.
- Monday, November 7: Utilities Committee – Utility Rate Ordinances
- City Clerk publishes first notice of November 17 public budget hearing.
- Monday, November 14: City Clerk publishes second notice of November 17 public budget hearing.
- Thursday, November 17: Conduct Proposed 2023 Budget Hearing: Provide overview of total budget, review expenditure requests for Administration/Finance, Police, Public Works, Community & Economic Development, Parks, Culture & Recreation, and miscellaneous funds.
- City Council sets the 2023 Property Tax Levy by ordinance.
- City Council sets 2023 Water rates by ordinance.
- City Council sets 2023 Wastewater rates by ordinance.
- City Council sets 2023 Stormwater rates by ordinance.
- Monday, November 21: City Clerk publishes first notice of December 1 public budget hearing.
- Monday, November 28: City Clerk publishes second notice of December 1 public budget hearing.
- Thursday, December 1: Conduct Proposed 2023 Budget Hearing: Provide overview of total budget, review expenditure requests for Administration/Finance, Police, Public Works, Community & Economic Development, Parks, Culture & Recreation, and miscellaneous funds.

Thursday, December 15: City Council to adopt 2023 Budget.