



FINANCE & ECONOMIC DEVELOPMENT COMMITTEE
TUESDAY, MAY 24, 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/89440091955>

Live or as a recording on YouTube: <https://youtu.be/dsxnkG7rnFo>

Listen via telephone: (888) 788-0099 or (877) 853-5247 (Webinar ID: 894 4009 1955)

AGENDA

2021 YEAR-END FINANCIAL REPORT

TROY WOO, FINANCE DIRECTOR
(STAFF REPORT)

1ST QUARTER FINANCIAL REPORT

TROY WOO, FINANCE DIRECTOR
(STAFF REPORT)

BOND REIMBURSEMENT RESOLUTION

TROY WOO, FINANCE DIRECTOR
(STAFF REPORT)

LOCAL REVITALIZATION FINANCING PROGRAM UPDATE

TROY WOO, FINANCE DIRECTOR
(BRIEFING)



**FINANCE & ECONOMIC
DEVELOPMENT COMMITTEE**
May 24, 2022

SUBJECT: 2021 Year-End Financial Report

RECOMMENDATION: Review Year-End Financial Report

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

ORIGINATED BY: Troy Woo, Finance Department

ATTACHMENTS: 1. [Revenue and Expenditure Reports for the Year Ending December 31, 2021](#)

FISCAL NOTE:

PRIOR REVIEW: None

BACKGROUND:

The 2021 year-end revenue and expenditure reports have been completed. There is a possibility that adjustments will be made to the report, so it is considered preliminary until the annual audit is complete. The Finance Department feels that any changes will be minor in nature, so it is comfortable presenting the information at this time. The report focuses on the General Fund. The revenue and expenditure summaries are attached.

GENERAL FUND EXPENDITURES

As of December 31, 2021, total General Fund Expenditures were \$50,804,140 or 84.1 percent of the adopted 2021 Budget. This is a total increase of \$575,802 or 1.2 percent compared to the 2020 total expenditure level. The net increase is a result of higher salaries, benefits, and capital transfers, which were offset by decreases relating to one-time 2020 CARES Act expenditures and 2020 Veterans Services Hub capital improvements.

Although all expenditure categories are reporting variances from the previous year, only the most significant and noteworthy variances are described below.

- Contracted Services expenditures decreased \$155,939. This is mainly the result of lower district court, public defender, and jail services costs due process delays as a result of the COVID-19 public health emergency.
- The City Manager and Human Resources Department expenditures increased \$240,363 and \$274,877, respectively, as a result of being closer to fully staffed in 2021 compared to 2020. In addition, Human Resources' professional services has increased \$120,113 due to recruitments and the need for labor law legal services relating to tax changes and legislative interpretation and implementation.
- The 2021 Social Services Department's expenditures decreased \$1,292,056. The primary reasons are related to lower levels of building improvement activity at the Lacey Veterans Services Hub (-\$467,746) and 2020 transactions relating to the distribution of CARES Act funding (-\$1,033,100). Although there was an overall reported decrease, expenditures relating to social services have been growing.
- The Police Department's 2021 expenditures increased \$253,521 compared to last year. Salaries and benefits increased \$206,780. This increase is lower than total police salaries and benefits as result of accounting for a larger percentage of public safety labor within the Criminal Justice Fund, where salaries and benefits increased \$343,055. Internal service charges for information services and equipment rental increased \$71,639 and \$114,206, respectively.
- Expenditures in the Public Works Engineering Department decreased \$117,215. Salaries and benefits decreased \$136,330 as a result of multiple vacancies.
- The Parks Maintenance Department is reporting a \$189,041 increase. Salaries and benefits increased \$104,028 primarily due to the backfilling of a previously frozen Journey Level Maintenance Technician.
- Community and Economic Development decreased \$186,415 due to a portion (\$194,050) of the CARES Act distributions expensed from this department during 2020.
- Transfers out had a total increase of \$1,764,840. Transfers increased due to planned capital transfers with most notable being a \$3.0 million transfer for the new police station property and decreases related to the 2020 one-time transfers related to the distribution of the Small Business Stabilization Fund and CARES Act assistance.
- Total expenditures in the Criminal Justice Fund increased \$855,755. The increase is a result of a larger percentage of public safety salaries and benefits (+\$343,055) being allocated to this fund during 2021 and a \$500,000 capital transfer to enhance technology and equipment.

- The Community Buildings Fund decreased \$441,749 through the third quarter. The decrease is due to the 2020 Community Center HVAC system replacement project (\$559,944).
- The Regional Athletic Complex (RAC) expenditures increased \$162,591 due to increases to salaries & benefits, irrigation, and electricity costs.
- The Street Fund experienced a \$268,131 increase. The routine summer street maintenance and right-of-way maintenance resumed after being paused in 2020 due to the COVID-19 public health emergency. Also, professional services increased \$88,662 due to the Avonlea sidewalk replacement project.
- The Capital Equipment Fund's expenditures decreased \$1,507,181. This decrease is primarily attributed to one-time 2020 expenditures (\$1,070,000) and transfers (\$510,400) relating to the CARES Act community and business support.

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

GENERAL FUND REVENUES

As of December 31, 2021, total General Fund Revenues were \$56,584,886 or 93.7 percent of the adopted budget. Overall General Fund revenues increased \$2,468,166 compared to 2020. Tax collections were significantly higher than budgeted and intergovernmental revenues were higher due to the reimbursements for the Veterans Services Hub capital improvements. One-time 2020 CARES Act distributions and transfers relating to CARES Act did offset revenue increases.

- During 2021, \$7,227,157 of property taxes were collected. This is equal to 99.7 percent of the annual property tax budget. This is an increase of \$618,937 compared to the previous year. The 2021 property tax collections were expected to increase due to a combination of the one percent increase, new construction credit, and refund levy.
- 2021 sales tax receipts totaled \$15,748,784. This is \$1,959,036 or 14.2 percent higher than last year.

	<u>Cash Basis Yr-Ended Dec. 31</u>			<u>Last 12</u>
	<u>This Year</u>	<u>Last Year</u>	<u>% Chg</u>	<u>Months</u>
General Merchandise Stores	2,451,912	2,214,757	10.7	2,451,912
Construction of Buildings	1,355,724	1,953,889	(30.6)	1,355,724
Food Services and Drinking Places	1,311,046	1,097,240	19.5	1,311,046
Miscellaneous Store Retailers	1,073,719	831,480	29.1	1,073,719
Building Material and Garden Equipment and Supplies	1,066,978	960,858	11.0	1,066,978
Specialty Trade Contractors	869,184	798,625	8.8	869,184
Merchant Wholesalers, Durable Goods	868,317	585,198	48.4	868,317
Motor Vehicle and Parts Dealers	583,164	476,103	22.5	583,164
Administrative and Support Services	533,100	410,263	29.9	533,100
Professional, Scientific, and Technical Services	479,832	346,192	38.6	479,832
Electronics and Appliance Stores	457,492	377,950	21.0	457,492
Sporting Goods, Hobby, Musical Instrument, and Books	435,583	378,088	15.2	435,583
Clothing and Clothing Accessories Stores	380,665	272,017	39.9	380,665
Health and Personal Care Stores	322,579	256,197	25.9	322,579
Food and Beverage Stores	293,399	285,022	2.9	293,399
Repair and Maintenance	279,532	290,313	(3.7)	279,532
Telecommunications	257,094	242,013	6.2	257,094
Nonstore Retailers	225,796	196,899	14.7	225,796
Furniture and Home Furnishings Stores	223,485	190,840	17.1	223,485
Rental and Leasing Services	209,285	210,706	(0.7)	209,285
	<u>13,677,889</u>	<u>12,374,650</u>		<u>13,677,889</u>

During 2021, the top 20 sources provided 89.3 percent of all sales tax. The “Construction of Buildings” category experienced significant decline (-30.6 percent) following a multi-year period of very strong growth due to commercial and industrial activity in northeast and central Lacey. The City’s largest sales tax category, “General Merchandise Stores”, experienced a 10.7 percent increase compared to 2020. Nearly all of the top 20 categories are experiencing growth consistent with a recovering local economy. It should be noted, the impacts of the Federal stimulus, Federal financial assistance, and pent up demand are not easily separated from the sustainable revenue increases. Also, high levels of inflation are likely contributing to the increased dollar value of sales activity.

- The General Fund business & occupation (B&O) tax totaled \$2,898,585 or 138.3 percent of the budget estimate. B&O tax collections have increased \$452,131. This increase is consistent with the sales tax growth, because B&O taxes have a very similar tax base. However, it appears the service business activity, which is primarily exempt from sales tax, increased during 2021 as the economy began to return to normal after a depressed 2020.
- Utility tax collections for 2021 were \$516,106 higher than the previous year. Electricity and City-owned utilities generated the most significant increases. Utility tax from electricity and City-owned utilities increased \$304,236 and \$282,400, respectively, compared to 2020. Telephone Utility Tax was \$175,915 lower than the previous year. It is assumed that households continue to eliminate land line phones due to broader use of mobile phones, which reduces overall consumption. Also, the implementation of a recent accounting standard changed the accounting of bundled mobile phone

contracts allows larger portions of mobile phone bills to be classified as data. This is significant, because data (internet) is not subject to local utility taxes.

- Admissions tax increased \$56,089, but the reported increase doesn't illustrate the true story. This variance is a compared to 2020's collections, which were severely impacted by the public health restrictions. Compared 2019, admissions tax was \$136,711 lower.
- 2021 gambling taxes totaled \$321,529, which was \$188,238 higher than 2020. The impact of the COVID-19 public health restrictions had similar impacts during 2020 as it did to admissions tax. During 2021, gambling tax collections were 81.5 percent of the 2019 pre-pandemic levels.
- \$2,088,548 of non-business license (includes building, mechanical, plumbing, and electrical permits fees) revenues were collected during 2021. This is a \$255,935 increase compared to the previous year. This is an improvement compared to the 2020/2019 decrease of \$1,081,501. Building permit fees are an indication of future new construction, so based on the 2021 year-end fees construction activity during 2022 will be similar to 2021. The overall 2021 increase is due to a significant building permit issuance at the end of 2021. Without the December permit activity, the 2022 outlook was for a decline to construction activity.
- Economic Environment/Plan Checking fees increased \$235,976. Plan check fees increased \$216,246. These fees are another indicator of future development and construction.
- Parks and Recreation revenues increased \$247,924. However, 2020's Parks and Recreation revenues were severely impacted by the COVID-19 public health emergency, so the comparison doesn't fairly illustrate the condition of the 2021 revenues. Comparing 2021's activity to 2019, Parks and Recreation revenues are \$465,138 lower, so the 2021 Parks and Recreation revenues were still significantly below the pre-pandemic activity levels.
- Reported interest earnings decreased \$742,101. It should be noted this decrease includes market value losses that will not be realized. General Fund actual interest earnings decreased \$267,017. This follows a 2020-2019 decrease of \$365,651. Throughout the public health emergency, overnight earnings rates were near zero. The City's December 2021 overnight earnings rate was 0.09 percent. In March, the Federal Reserve rate was increased 0.25 percent. At the May Federal Reserve meeting, the rate was increased 0.5 percent. Several more rate increases are expected before the end of 2022, so investment earnings will be shifting to an upward trend.

UTILITY FUNDS

Year-end operating expenditures for the City's utilities were consistent with the budget projections. The Water Utility Maintenance and Operations Fund expenditures were \$623,535 or 4.5 percent lower during 2021 largely due to a \$613,846 lower annual transfer to the Water Capital Fund. Wastewater Utility Maintenance and Operations Fund expenditures were \$577,895 or 3.3 percent higher in 2021. The primary reason is higher LOTT collections and remittance (+\$885,125). The Stormwater Maintenance and Operations Fund expenditures increased \$555,866 or 17.2 percent compared to the previous year due to higher capital transfers of \$676,311.

Operating revenues for the utilities are meeting projections and consistent with approved rate increases and customer growth. Total 2021 water revenues were \$895,223 higher than 2020. Water sales were \$1.1 million higher than the 2020 water sales. Rate increases and growth were the primary reasons for higher water revenues. Wastewater total revenues were \$1,207,297 higher than the previous year. Wastewater sales were \$424,763 higher than 2020 and LOTT sales were \$880,253 higher than 2020. Stormwater revenues were \$271,753 higher than 2020. Stormwater sales increased \$323,464.

CONCLUSION AND FORECAST

A great deal has changed since the end of 2021. Positive cases from the Omicron variant had yet to peak on December 31, 2021. Today, most COVID-19 restrictions have been lifted and cases, hospitalizations, and severe illness remain low. Year-end inflation for the Seattle area was 7.57 percent and the most recent inflation was 9.12 percent and has yet to peak.

While some things have changed, some remain the same. Some supply chains remain stressed and the job market remains extremely tight.

Meanwhile, the local economy remains strong, but not without questions and unknowns. The year-end revenue and expenditure results do not warrant any departure from Lacey's conservative approach. This approach has and continues to provide financial flexibility and ability to weather sudden downturns to the economy. This was highlighted at the beginning of the COVID-19 public health emergency, when Lacey was able to continue its full operations and take a "wait and see" approach through the use of reserves rather than make quick and panicked decisions.

City of Lacey
 Monthly Revenue Summary
 December 2021

Revenues:	2020 Amended Budget	YTD 12/31/2020 YTD Actual	2020 YTD % of Budget	2021 Amended Budget	YTD 12/31/2021 YTD Actual	2021 YTD % of Budget	2021-2020 YTD Variance
General Fund							
Taxes:							
Property	\$ 6,693,326	\$ 6,608,220	98.7%	\$ 7,247,499	\$ 7,227,157	99.7%	\$ 618,937
Sales	8,254,723	13,789,748	167.1%	10,881,375	15,748,784	144.7%	1,959,036
Business & Occupation	1,830,846	2,446,454	133.6%	2,095,279	2,898,585	138.3%	452,131
Admissions	112,500	25,535	22.7%	112,500	81,624	72.6%	56,089
Utility - Electric	2,314,531	2,309,307	99.8%	2,333,333	2,613,543	112.0%	304,236
Utility - Natural Gas	664,116	760,965	114.6%	831,002	828,811	99.7%	67,846
Utility - Solid Waste	534,683	438,611	82.0%	400,724	476,150	118.8%	37,539
Utility - Telephone	848,053	690,426	81.4%	682,617	514,511	75.4%	(175,915)
Utility - Water/Sewer/Storm	3,396,016	3,211,530	94.6%	3,100,727	3,493,930	112.7%	282,400
Excise - Forest/Leasehold	25,000	23,421	93.7%	20,000	24,665	123.3%	1,244
Gambling	220,100	133,301	60.6%	239,136	321,539	134.5%	188,238
Total Taxes	\$ 24,893,894	\$ 30,437,520	122.27%	\$ 27,944,192	\$ 34,229,300	122.49%	\$ 3,791,780
Penalties & Interest	\$ 250	\$ 3,744	1497.7%	\$ 250	\$ 3,223	1289.1%	\$ (522)
Franchises	616,044	688,538	111.8%	626,963	701,709	111.9%	13,171
Licenses & Permits	1,478,703	1,832,614	123.9%	1,749,200	2,088,548	119.4%	255,935
Inter-Governmental:							
Criminal Justice	\$ -	\$ 3,319		\$ -	\$ 31,819		\$ 28,500
Traffic Safety	5,000	-		-	-		-
Liquor Excise	286,599	339,884	118.6%	299,471	385,222	128.6%	45,338
Liquor Profits	388,114	411,543	106.0%	417,989	421,095	100.7%	9,552
Other State Entitlements	57,935	303,190	523.3%	59,259	311,059	524.9%	7,869
Inter-Gov. Service Charges	266,055	267,415	100.5%	126,055	91,148	72.3%	(176,267)
Other Grants	4,740,002	1,326,299	28.0%	1,113,644	2,387,219	214.4%	1,060,921
Total Inter-Governmental	\$ 5,743,705	\$ 2,651,649	46.17%	\$ 2,016,418	\$ 3,627,562	179.90%	\$ 975,912
Service Charges:							
General Government	\$ 52,100	\$ 23,343	44.8%	\$ 51,750	\$ 16,430	31.7%	\$ (6,913)
Security of Persons/Property	5,500	269,866	4906.7%	181,500	196,033	108.0%	(73,834)
Economic Environment/Plan Checking	339,500	535,599	157.8%	579,500	771,575	133.1%	235,976
Culture and Recreation	525,112	229,543	43.7%	542,912	477,467	87.9%	247,924
Total Service Charges	\$ 922,212	\$ 1,058,352	114.76%	\$ 1,355,662	\$ 1,461,505	107.81%	\$ 403,153
Interfund Charges:							
Engineering Services	\$ 3,146,045	\$ 3,108,692	98.8%	\$ 3,180,046	\$ 2,950,329	92.8%	\$ (158,363)
Park Maintenance	469,049	388,414	82.8%	481,975	536,726	111.4%	148,312
Water Resources	2,149,628	1,784,192	83.0%	1,940,619	1,563,934	80.6%	(220,258)
Other Interfund Charges	1,234,455	1,234,455	100.0%	1,383,954	1,383,954	100.0%	149,499
Total Interfund Charges	\$ 6,999,177	\$ 6,515,753	93.09%	\$ 6,986,594	\$ 6,434,943	92.10%	\$ (80,810)
Violations	\$ 250,000	\$ 166,650	66.7%	\$ 250,000	\$ 141,860	56.7%	\$ (24,790)
Interest Earnings	157,622	658,862	418.0%	255,050	(83,238)	-32.6%	(742,101)
Other Miscellaneous	37,050	128,985	348.1%	23,576	170,082	721.4%	41,096
Contributions	556,000	61,441	11.1%	580,500	102,007	17.6%	40,567
Financing	-	-		-	-		-
Transfers	558,900	558,900	100.0%	48,500	48,500	100.0%	(510,400)
Beginning Cash	8,278,276	-		8,306,424	-		-
Total Current Expense Fund Revenues	\$ 50,491,833	\$ 44,763,008	88.65%	\$ 50,143,329	\$ 48,926,001	97.57%	\$ 4,162,993
Criminal Justice Fund	\$ 724,856	\$ 1,232,068	170.0%	\$ 1,487,168	\$ 1,369,708	92.1%	\$ 137,639
Community Buildings Fund	1,404,336	1,068,546	76.1%	850,427	555,397	65.3%	(513,149)
Regional Athletic Complex Fund	951,441	779,981	82.0%	1,176,769	1,218,478	103.5%	438,497
Street Fund	3,864,837	3,856,800	99.8%	3,907,521	3,849,373	98.5%	(7,427)
Capital Equipment Fund	4,576,387	2,416,317	52.8%	2,826,961	665,929	23.6%	(1,750,388)
Total General Fund Revenues	\$ 62,013,690	\$ 54,116,720	87.27%	\$ 60,392,175	\$ 56,584,886	93.70%	\$ 2,468,166

Revenues:	2020	YTD	2020	2021	YTD	2021	2021-2020
<u>Other Funds</u>	<u>Amended</u>	<u>12/31/2020</u>	<u>YTD % of</u>	<u>Amended</u>	<u>12/31/2021</u>	<u>YTD % of</u>	<u>YTD</u>
	<u>Budget</u>	<u>YTD Actual</u>	<u>Budget</u>	<u>Budget</u>	<u>YTD Actual</u>	<u>Budget</u>	<u>Variance</u>
Arterial Street Fund	\$ 10,136,027	\$ 8,485,258	83.7%	\$ 9,338,046	\$ 10,628,419	113.8%	\$ 2,143,162
Transportation Improvement Fund	2,989,152	3,512,867	117.5%	4,691,086	4,805,527	102.4%	1,292,659
Lodging Tax	274,812	351,375	127.9%	403,500	505,075	125.2%	153,700
Community Block Grant	267	10,668	3995.6%	170	5,428	3193.1%	(5,240)
Hicks Lake Management District	47,136	46,084	97.8%	46,581	43,850	94.1%	(2,234)
General Obligation Bond	1,712,639	1,695,033	99.0%	1,718,174	1,712,911	99.7%	17,878
LID Debt	102,629	92,668	90.3%	79,593	28,689	36.0%	(63,979)
Building Improvement	2,080,240	630,729	30.3%	3,961,135	4,005,887	101.1%	3,375,158
Parks & Open Space	991,376	323,023	32.6%	300,731	27,016	9.0%	(296,007)
Regional Athletic Complex Capital	2,428,749	1,572,503	64.7%	1,641,535	1,561,578	95.1%	(10,925)
Water Utility	14,439,696	14,995,281	103.8%	14,831,654	15,890,504	107.1%	895,223
Wastewater Utility	18,199,769	18,322,188	100.7%	19,306,939	19,529,485	101.2%	1,207,297
Stormwater Utility	3,883,510	4,244,864	109.3%	4,339,994	4,516,617	104.1%	271,753
Reclaimed Water	1,313	1,589	121.1%	645	(239)	-37.1%	(1,829)
Water Capital	23,158,388	10,604,488	45.8%	37,464,232	10,732,885	28.6%	128,397
Wastewater Capital	16,602,006	3,046,868	18.4%	14,606,549	6,144,138	42.1%	3,097,270
Stormwater Capital	959,055	988,131	103.0%	1,649,556	1,382,147	83.8%	394,016
Reclaimed Water Capital	25,510	30,882	121.1%	12,540	(4,646)	-37.0%	(35,528)
Water Debt Service	4,034,285	3,027,788	75.1%	4,426,190	5,904,190	133.4%	2,876,402
Wastewater Debt Service	2,494,812	1,643,953	65.9%	2,643,369	2,990,088	113.1%	1,346,135
Stormwater Debt Service	1,752,286	249,558	14.2%	2,101,867	487,515	23.2%	237,957
Equipment Rental	3,767,841	3,772,060	100.1%	3,713,644	3,378,583	91.0%	(393,477)
Information Management	2,270,632	1,914,118	84.3%	2,475,429	2,260,136	91.3%	346,018
Total Revenues	\$ 174,365,820	\$ 133,678,697	76.67%	\$ 190,145,334	\$ 153,120,671	80.53%	\$ 19,441,973

City of Lacey
Monthly Expenditure Summary
December 2021

Expenditures: General Fund	2020 Amended Budget	YTD 12/31/2020 Actual	2020 YTD % of Budget	2021 Amended Budget	YTD 12/31/2021 Actual	2021 YTD % of Budget	2021-2020 YTD Variance
City Council	\$ 432,877	\$ 315,296	72.8%	\$ 546,492	\$ 395,691	72.4%	\$ 80,396
Contracted Services	2,605,557	2,021,705	77.6%	2,832,658	1,865,766	65.9%	(155,939)
City Manager	504,776	435,092	86.2%	791,065	675,456	85.4%	240,363
Human Resources	1,351,299	938,654	69.5%	1,431,190	1,213,531	84.8%	274,877
Social Services	4,832,769	3,273,259	67.7%	3,146,721	1,981,203	63.0%	(1,292,056)
Public Affairs/City Clerk	1,056,851	920,568	87.1%	975,671	863,034	88.5%	(57,534)
Finance	1,416,440	1,294,291	91.4%	1,425,780	1,358,843	95.3%	64,551
Legal & Judicial	673,087	677,156	100.6%	705,289	704,292	99.9%	27,135
Common Facilities Overhead	1,537,359	1,432,362	93.2%	1,614,526	1,496,029	92.7%	63,667
Police	11,564,500	10,693,067	92.5%	12,068,954	10,946,588	90.7%	253,521
Public Works - Support SVC	120,389	106,740	88.7%	147,203	123,491	83.9%	16,751
Public Works - Engineering	3,832,054	3,720,665	97.1%	3,947,610	3,603,450	91.3%	(117,215)
Public Works - Parks Maint.	3,031,942	2,782,322	91.8%	3,287,127	2,971,363	90.4%	189,041
Public Works - Facilities Maint.	652,786	583,001	89.3%	745,834	576,967	77.4%	(6,034)
Planning & Community Dev.	3,210,516	2,863,595	89.2%	3,879,698	2,677,180	69.0%	(186,415)
Public Works - Water Resources	1,549,454	1,396,158	90.1%	1,543,672	1,396,350	90.5%	191
Parks & Recreation	3,074,343	1,970,525	64.1%	3,334,474	2,048,640	61.4%	78,114
Transfers Out	9,044,834	6,113,628	67.6%	7,719,365	7,878,468	102.1%	1,764,840
Total Current Expense Fund:	\$ 50,491,833	\$ 41,538,085	82.27%	\$50,143,329	\$ 42,776,340	85.31%	\$ 1,238,255
Criminal Justice Fund	\$ 724,856	\$ 623,353	86.0%	\$ 1,487,168	\$ 1,479,107	99.5%	\$ 855,755
Community Buildings Fund	1,404,336	1,079,066	76.8%	850,427	637,317	74.9%	(441,749)
Regional Athletic Complex	951,441	935,398	98.3%	1,176,769	1,097,990	93.3%	162,591
Street Fund	3,864,837	3,320,754	85.9%	3,907,521	3,588,885	91.8%	268,131
Capital Equipment Fund	4,576,387	2,731,683	59.7%	2,826,961	1,224,502	43.3%	(1,507,181)
Total General Fund Expenditures	\$ 62,013,690	\$ 50,228,338	81.00%	\$ 60,392,175	\$ 50,804,140	84.12%	\$ 575,802
Expenditures: Other Funds							
Arterial Street Fund	\$ 10,136,027	\$ 4,827,056	47.6%	\$ 9,338,046	\$ 5,279,518	56.5%	\$ 452,462
Transportation Improvement	2,989,152	1,760,520	58.9%	4,691,086	4,185,925	89.2%	2,425,405
Lodging Tax	274,812	266,560	97.0%	403,500	403,500	100.0%	136,940
Community Block Grant	267	-	0.0%	170	350	205.9%	350
Hicks Lake Management District	47,136	46,366	98.4%	46,581	33,259	71.4%	(13,107)
General Obligation Bond	1,712,639	1,703,350	99.5%	1,718,174	1,714,800	99.8%	11,450
LID Debt	102,629	-	0.0%	79,593	-	0.0%	-
Building Improvement	2,080,240	1,335,103	64.2%	3,961,135	786,811	19.9%	(548,292)
Parks & Open Space	991,376	660,054	66.6%	300,731	254,256	84.5%	(405,798)
Regional Athletic Complex Capital	2,428,749	1,363,024	56.1%	1,641,535	587,736	35.8%	(775,288)
Water Utility	14,439,696	13,907,924	96.3%	14,831,654	13,284,389	89.6%	(623,535)
Wastewater Utility	18,199,769	17,724,920	97.4%	19,306,939	18,302,815	94.8%	577,895
Stormwater Utility	3,883,510	3,237,081	83.4%	4,339,994	3,792,947	87.4%	555,866
Reclaimed Water	1,313	32,821	2499.7%	645	32,821	5088.6%	0
Water Capital	23,158,388	8,490,235	36.7%	37,464,232	15,808,534	42.2%	7,318,299
Wastewater Capital	16,602,006	5,593,122	33.7%	14,606,549	7,631,829	52.2%	2,038,707
Stormwater Capital	959,055	601,962	62.8%	1,649,556	288,381	17.5%	(313,580)
Reclaimed Water Capital	25,510	-	0.0%	12,540	-	0.0%	-
Water Debt Service	4,034,285	4,208,714	104.3%	4,426,190	4,286,536	96.8%	77,822
Wastewater Debt Service	2,494,812	2,630,128	105.4%	2,643,369	2,829,353	107.0%	199,225
Stormwater Debt Service	1,752,286	1,974,750	112.7%	2,101,867	1,995,288	94.9%	20,538
Equipment Rental	3,767,841	2,212,605	58.7%	3,713,644	2,473,423	66.6%	260,818
Information Management	2,270,632	1,863,976	82.1%	2,475,429	1,881,326	76.0%	17,350
Total Expenditures	\$ 174,365,820	\$ 124,668,610	71.50%	\$ 190,145,334	\$ 136,657,938	71.87%	\$ 11,989,328



**FINANCE & ECONOMIC
DEVELOPMENT COMMITTEE**
May 24, 2022

SUBJECT: 2022 First Quarter Financial Report

RECOMMENDATION: Review First Quarter Financial Report

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

ORIGINATED BY: Troy Woo, Finance Department

ATTACHMENTS: 1. [Expenditure Report for the Quarter Ending March 31, 2022](#)
2. [Revenue Report for the Quarter Ending March 31, 2022](#)

FISCAL NOTE:

PRIOR REVIEW:

BACKGROUND

The 2022 first quarter financial report has been completed. This report focuses on the General Fund. The revenue and expenditure summaries are attached.

GENERAL FUND EXPENDITURES

As of March 31, 2022, total General Fund Expenditures were \$10,538,838 or 16.9 percent of the adopted 2022 Budget. This is a total decrease of \$203,859 or 1.9 percent compared to the first quarter 2022 total expenditure level. The overall 2022 decrease is primarily due to one-time 2021 Veterans Services Hub building and U.S. Veteran Affairs Outstation Center improvement expenditures. It should also be noted that the majority of first quarter salaries and benefits do not include cost of living adjustments due to ongoing labor negotiations.

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

- A \$563,613 decrease to the Social Services Department occurred during the first quarter of 2022. During the first quarter of 2021, one-time expenditures of \$544,842 were made for the building improvements to the Lacey Veterans Services Hub and U.S. Veteran Affairs Outstation Center lease tenant improvement projects.
- The Police Department experienced an increase of \$110,514. Information Management Services internal service fees increased \$112,719 due to the investment in laptop technology. Salary and benefits decreased \$89,952 due to vacancies. Again, it should be noted that the majority of the police labor contracts remain unsettled, so the 2022 salary and benefits do not include any cost-of-living increases.

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

GENERAL FUND REVENUES

As of March 31, 2022, total General Fund Revenues were \$13,202,477 or 20.1 percent of the adopted budget. Last year at this same time, revenues were 16.6 percent of budget. First quarter General Fund revenues increased \$3,386,299 compared to the previous year. A significant portion of the increase relates to capital project reimbursements relating to the and Veterans Services Hub and U.S. Veteran Affairs Outstation Center projects.

- Through March 2022, \$330,720 of property taxes have been collected. This is equal to 4.4 percent of the annual property tax budget. The low collection rate during the first quarter is normal. Property taxes are due twice per year on April 30 and October 31, so the majority of property taxes are collected near these dates.
- 2022 sales tax receipts totaled \$3,845,025 at the end of March. This is \$340,905 or 9.7 percent higher than last year. However, sales tax receipts from January and February will be accrued back to 2021 when the sales activity actually took place. Only two months of the 2022 have been received through April 2022. The accrual basis increase compared to the first two months of 2021 is 34,561 or 1.6% higher. The following table shows the year-to-date receipts of the City's top 20 sales tax sources.

	Year-to-Date			Last 12
	<u>This Year</u>	<u>Last Year</u>	<u>% Chg</u>	<u>Months</u>
General Merchandise Stores	\$ 662,661	\$ 652,073	1.6	\$ 2,462,675
Construction of Buildings	350,232	283,676	23.5	1,422,328
Food Services and Drinking Places	328,288	259,292	26.6	1,380,831
Miscellaneous Store Retailers	316,710	276,100	14.7	1,113,854
Building Material and Garden Equipment and Supplies	203,791	216,262	(5.8)	1,054,520
Specialty Trade Contractors	197,999	194,466	1.8	872,630
Merchant Wholesalers, Durable Goods	145,342	168,410	(13.7)	845,307
Administrative and Support Services	188,016	127,905	47.0	595,226
Motor Vehicle and Parts Dealers	117,735	108,345	8.7	592,554
Professional, Scientific, and Technical Services	104,536	94,891	10.2	487,187
Electronics and Appliance Stores	103,761	116,948	(11.3)	444,322
Sporting Goods, Hobby, Musical Instrument, and Books	112,986	116,272	(2.8)	432,477
Clothing and Clothing Accessories Stores	103,611	94,332	9.8	389,966
Health and Personal Care Stores	71,399	75,853	(5.9)	318,131
Food and Beverage Stores	79,831	70,104	13.9	303,126
Repair and Maintenance	62,300	58,825	5.9	283,016
Telecommunications	71,681	65,314	9.7	263,461
Furniture and Home Furnishings Stores	53,566	52,214	2.6	224,745
Nonstore Retailers	69,563	71,848	(3.2)	223,431
Rental and Leasing Services	<u>48,438</u>	<u>45,204</u>	7.2	<u>212,519</u>
	\$ 3,392,446	\$ 3,148,334		\$ 13,922,308

The top 20 sources provide 89.1 percent of all sales tax. The largest sales tax category, "General Merchandise Stores", experienced a first quarter 1.6 percent increase compared to 2021. The "Construction of Buildings" category increased 23.5 percent. However, when evaluating the "Construction of Buildings" category using the accrual basis, the category experienced a 7.3 percent decrease. Sales tax is the General Fund's largest source of revenue and construction activity is highly cyclical, so the close monitoring of sales tax collections will continue.

- The General Fund business & occupation (B&O) tax first quarter revenues total \$894,203 or 35.2 percent of budget estimate. This is an increase of \$66,137 or 8.0 percent. B&O tax collections are likely benefitting from the fully reopened economy, which is have a positive effect on service business activity.
- Overall, utility tax collections for the first quarter were \$322,564 higher than the previous year. Electricity utility tax increased \$137,235 during the first quarter. Telephone utility tax increased \$23,121 compared to the previous year. Telephone utility tax has been in decline for years due to the broader use of mobile phones, which large portions of monthly bills are related to data. Internet data is exempt from local utility taxes. The City-owned utilities produced \$73,950 more utility tax year-to-date 2022.
- Admissions Tax was \$34,901 higher and Gambling Tax was \$92,469 higher during the first quarter. However, activity in these areas were almost non-existent during the

first quarter 2021 due to the COVID-19 safety restrictions. Collections from Admission Tax was \$0 and Gambling Tax was \$2,070 during first quarter 2021.

- Non-business license (includes building, mechanical, plumbing, and electrical permits fees) revenues have been collected at 28.6 percent of the budget estimate. Building permits increased \$3,432. Building permit activity can be an indicator of future one-time sales tax increases, ongoing property, and utility tax increases, so the current indication is taxes may grow at a similar pace in 2022.
- Plan checking fees decreased \$201,885 during the first quarter. This is an indicator of potential future building permit activity.
- Intergovernmental Service Charges increased \$164,401 due to the return of the North Thurston Public Schools security contract.
- Other Grants increased \$1,921,228 due to the reimbursements for the Veterans Services Hub building and U.S. Veteran Affairs Outstation Center improvement projects.
- Interest earnings show an increase of \$394,545. However, this includes a year-end market value accounting adjustment (+282,523) and a reversal of last year's market adjustment (+\$122,229) relating to generally accepted accounting principles investment valuation. For the majority of the first quarter the overnight Federal Reserve rate remained unchanged. At its March meeting, the Federal Reserve began an expected series of rate increases. Interest earnings should grow during the remaining months of 2022.

UTILITY FUNDS

First quarter 2022 operating expenditures for the City's utilities were consistent with projections. The Water Utility Maintenance and Operations Fund expenditures were \$107,813 or 4.3 percent lower in 2022. Wastewater Utility Maintenance and Operations Fund expenditures were \$209,461 or 6.1 percent higher in 2022. The LOTT revenue remittance was \$144,840 higher during 2022. The Stormwater Maintenance and Operations Fund expenditures were \$470 or 0.1 percent higher than the previous year.

Water revenues were \$349,860 or 14.6 percent higher than the first quarter of 2021. Water sales increased \$225,715 or 9.7 percent. The aforementioned investment accounting adjustment impacted the water fund by \$63,511. Wastewater total revenues were \$622,451 or 13.3 percent higher than the previous year. Wastewater Sales increased \$309,953 and LOTT sales increased \$208,486. Stormwater revenues were \$209,901 or 19.9 percent higher than 2021 due to a \$166,367 increase to Stormwater Sales. The increase in the utility revenues is largely a timing issue. Due to the mid-year 2021 rate adjustment, the quarterly comparison includes the equivalent of two annual adjustments in the first quarter 2022 collections.

Despite the seemingly high increases to utility revenue collections, operating revenues for the utilities are meeting projections and consistent with approved rate increases and customer growth. The 2021 utility rate increases were delayed until July 1, so the first quarter comparisons for 2022 include the impacts of two rate increases. Below are the adopted rates increases for 2021 and 2022:

	July 1, 2021	Jan. 1, 2022
Water	5.00%	5.25%
Sewer	5.00%	9.50%
Stormwater	4.50%	4.50%

CONCLUSION AND FORECAST

With just a few exceptions, first quarter the tax and fee collections indicate the local economy has adjusted to the impacts of the COVID-19 pandemic. However, there are still reasons to remain cautious as some key economic indicators have lingering questions.

- 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 was 9.1 percent, an increase compared to the previous month, so currently there is not an indication that inflation has peaked. The Seattle area has typically lagged behind the national inflation, so hopefully the local inflation will peak soon.
- The City’s largest single source of sales tax, General Merchandise Stores, increased 1.6% during the first quarter. However, when adjusting for inflation actual sales activity volume may have decreased.
- At its May meeting, the Federal Reserve increased rates 0.50 percent, which is a strong action to lower inflation. This is intended to slow down the overheated 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 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.

Through the first quarter, the City should be grateful the budget projection for both revenues and expenditures are in alignment, so no change of course is needed. As always, staff will monitor and evaluate the City’s immediate economic conditions and indicators and communicate any need to adjust the 2022 Budget and 2022 financial outlook.

City of Lacey
Monthly Expenditure Summary
March 2022

Expenditures: General Fund	2021 Amended Budget	YTD 3/31/2021 Actual	2021 YTD % of Budget	2022 Amended Budget	YTD 3/31/2022 Actual	2022 YTD % of Budget	2022-2021 YTD Variance
City Council	\$ 546,767	\$ 142,942	26.1%	\$ 558,766	\$ 156,581	28.0%	\$ 13,638
Contracted Services	2,829,292	346,888	12.3%	2,847,206	298,231	10.5%	(48,657)
City Manager	781,882	159,898	20.5%	753,122	186,430	24.8%	26,532
Human Resources	1,361,190	274,946	20.2%	1,371,075	308,934	22.5%	33,987
Social Services	2,626,585	747,662	28.5%	1,610,677	184,049	11.4%	(563,613)
Public Affairs/City Clerk	935,671	233,756	25.0%	1,180,096	186,324	15.8%	(47,432)
Finance	1,411,780	311,669	22.1%	1,633,565	359,489	22.0%	47,820
Legal & Judicial	705,289	175,243	24.8%	725,068	173,287	23.9%	(1,957)
Common Facilities Overhead	1,591,989	658,990	41.4%	1,628,579	756,819	46.5%	97,829
Police	12,068,954	2,852,229	23.6%	13,082,624	2,962,744	22.6%	110,514
Public Works - Support SVC	147,203	31,293	21.3%	151,100	30,687	20.3%	(605)
Public Works - Engineering	3,947,610	917,529	23.2%	4,639,793	953,067	20.5%	35,538
Public Works - Parks Maint.	3,284,057	641,931	19.5%	3,274,820	673,561	20.6%	31,630
Public Works - Facilities Maint.	745,834	108,868	14.6%	938,472	201,559	21.5%	92,692
Planning & Community Dev.	3,689,481	653,841	17.7%	4,288,060	737,368	17.2%	83,527
Public Works - Water Resources	1,543,672	363,587	23.6%	1,900,084	308,005	16.2%	(55,583)
Parks & Recreation	3,312,846	435,273	13.1%	3,337,438	514,595	15.4%	79,321
Transfers Out	5,050,126	-	0.0%	5,891,802	-	0.0%	-
Total Current Expense Fund:	\$ 46,580,228	\$ 9,056,547	19.44%	\$49,812,347	\$ 8,991,729	18.05%	\$ (64,818)
Criminal Justice Fund	\$ 1,487,168	\$ 356,074	23.9%	\$ 3,283,881	\$ 322,930	9.8%	\$ (33,144)
Community Buildings Fund	685,570	107,487	15.7%	767,973	133,742	17.4%	26,255
Regional Athletic Complex	1,173,087	259,773	22.1%	1,233,312	257,198	20.9%	(2,576)
Street Fund	3,906,339	789,921	20.2%	4,017,012	746,121	18.6%	(43,799)
Capital Equipment Fund	1,928,195	172,895	9.0%	3,376,487	87,118	2.6%	(85,777)
Total General Fund Expenditures	\$ 55,760,587	\$ 10,742,698	19.27%	\$ 62,491,012	\$ 10,538,838	16.86%	\$ (203,859)
Expenditures: Other Funds							
Arterial Street Fund	\$ 8,948,046	\$ 575,764	6.4%	\$ 3,816,998	\$ 173,352	4.5%	\$ (402,412)
Transportation Improvement	4,641,086	67,892	1.5%	4,750,000	119,844	2.5%	51,952
Lodging Tax	403,500	17,500	4.3%	580,500	26,969	4.6%	9,469
Community Block Grant	170	-	0.0%	122	-	0.0%	-
Hicks Lake Management District	46,581	-	0.0%	46,358	-	0.0%	-
General Obligation Bond	1,718,174	-	0.0%	1,261,390	-	0.0%	-
LID Debt	79,593	-	0.0%	70,897	-	0.0%	-
Building Improvement	1,070,182	9,500	0.9%	5,488,770	69,580	1.3%	60,080
Parks & Open Space	294,589	71,003	24.1%	614,766	28,876	4.7%	(42,127)
Regional Athletic Complex Capital	1,567,452	-	0.0%	4,076,090	4,493	0.1%	4,493
Water Utility	14,312,811	2,509,014	17.5%	16,010,213	2,401,201	15.0%	(107,813)
Wastewater Utility	19,256,764	3,396,320	17.6%	20,947,953	3,605,781	17.2%	209,461
Stormwater Utility	4,339,476	647,745	14.9%	4,651,470	648,215	13.9%	470
Reclaimed Water	645	-	0.0%	408	-	0.0%	-
Water Capital	37,108,336	1,496,404	4.0%	28,416,622	950,843	3.3%	(545,561)
Wastewater Capital	14,231,549	580,706	4.1%	12,999,652	760,220	5.8%	179,514
Stormwater Capital	1,649,556	14,461	0.9%	1,927,284	18,908	1.0%	4,447
Reclaimed Water Capital	12,540	-	0.0%	7,939	-	0.0%	-
Water Debt Service	4,426,190	-	0.0%	4,779,149	-	0.0%	-
Wastewater Debt Service	2,643,369	27,341	1.0%	2,893,646	25,370	0.9%	(1,971)
Stormwater Debt Service	2,101,867	-	0.0%	2,352,444	-	0.0%	-
Equipment Rental	3,404,103	543,953	16.0%	3,702,866	453,172	12.2%	(90,781)
Information Management	2,448,779	485,902	19.8%	2,934,844	457,238	15.6%	(28,664)
Total Expenditures	\$ 180,465,945	\$ 21,186,201	11.74%	\$ 184,821,393	\$ 20,282,899	10.97%	\$ (903,302)

City of Lacey
 Monthly Revenue Summary
 March 2022

Revenues:	2021 Amended Budget	YTD 3/31/2021 YTD Actual	2021 YTD % of Budget	2022 Amended Budget	YTD 3/31/2022 YTD Actual	2022 YTD % of Budget	2022-2021 YTD Variance
General Fund							
Taxes:							
Property	\$ 7,247,499	\$ 183,706	2.5%	\$ 7,565,892	\$ 330,720	4.4%	\$ 147,014
Sales	10,881,375	3,504,121	32.2%	13,163,089	3,845,025	29.2%	340,905
Business & Occupation	2,095,279	828,066	39.5%	2,540,102	894,203	35.2%	66,137
Admissions	112,500	-		84,000	34,901	41.5%	34,901
Utility - Electric	2,333,333	697,796	29.9%	2,509,713	835,031	33.3%	137,235
Utility - Natural Gas	831,002	308,853	37.2%	812,609	384,399	47.3%	75,546
Utility - Solid Waste	400,724	112,442	28.1%	429,537	125,154	29.1%	12,712
Utility - Telephone	682,617	143,056	21.0%	468,525	166,177	35.5%	23,121
Utility - Water/Sewer/Storm	3,100,727	676,979	21.8%	3,361,406	750,929	22.3%	73,950
Excise - Forest/Leasehold	20,000	6,384	31.9%	20,000	6,166	30.8%	(218)
Gambling	239,136	2,070	0.9%	239,136	94,539	39.5%	92,469
Total Taxes	\$ 27,944,192	\$ 6,463,473	23.13%	\$ 31,194,009	\$ 7,467,245	23.94%	\$ 1,003,772
Penalties & Interest	\$ 4,750	\$ 620	13.1%	\$ 4,750	\$ 567	11.9%	\$ (53)
Franchises	626,963	175,839	28.0%	701,790	179,308	25.6%	3,469
Licenses & Permits	1,744,700	390,381	22.4%	1,568,237	448,360	28.6%	57,978
Inter-Governmental:							
Criminal Justice	\$ -	\$ 11,700		\$ -	\$ 2,784		\$ (8,916)
Traffic Safety	-	-		-	-		-
Liquor Excise	299,471	84,736	28.3%	353,331	96,581	27.3%	11,845
Liquor Profits	417,989	104,535	25.0%	426,736	111,237	26.1%	6,702
Other State Entitlements	59,259	19,670	33.2%	81,622	28,778	35.3%	9,108
Inter-Gov. Service Charges	126,055	31,515	25.0%	126,055	195,916	155.4%	164,401
Other Grants	1,113,644	15,068	1.4%	8,000	1,936,296	24203.7%	1,921,228
Total Inter-Governmental	\$ 2,016,418	\$ 267,224	13.25%	\$ 995,744	\$ 2,371,591	238.17%	\$ 2,104,368
Service Charges:							
General Government	\$ 51,750	\$ 4,702	9.1%	\$ 51,750	\$ 1,650	3.2%	\$ (3,052)
Security of Persons/Property	181,500	38,401	21.2%	181,500	50,194	27.7%	11,793
Economic Environment/Plan Checking	579,500	287,763	49.7%	579,500	85,878	14.8%	(201,885)
Culture and Recreation	542,912	62,229	11.5%	892,940	61,638	6.9%	(591)
Total Service Charges	\$ 1,355,662	\$ 393,095	29.00%	\$ 1,705,690	\$ 199,360	11.69%	\$ (193,736)
Interfund Charges:							
Engineering Services	\$ 3,180,046	\$ 727,951	22.9%	\$ 3,269,255	\$ 705,175	21.6%	\$ (22,776)
Park Maintenance	481,975	124,998	25.9%	451,228	64,502	14.3%	(60,495)
Water Resources	1,940,619	420,835	21.7%	2,411,187	355,593	14.7%	(65,243)
Other Interfund Charges	1,383,954	345,990	25.0%	1,296,823	324,207	25.0%	(21,783)
Total Interfund Charges	\$ 6,986,594	\$ 1,619,773	23.18%	\$ 7,428,493	\$ 1,449,477	19.51%	\$ (170,297)
Violations	\$ 250,000	\$ 36,052	14.4%	\$ 250,000	\$ 25,725	10.3%	\$ (10,327)
Interest Earnings	255,050	(191,304)	-75.0%	168,680	203,242	120.5%	394,545
Other Miscellaneous	528,076	15,049	2.8%	236,176	21,888	9.3%	6,840
Contributions	76,000	26,342	34.7%	76,000	18,800	24.7%	(7,542)
Financing	-	-		-	-		-
Transfers	48,500	-		48,500	-		-
Beginning Cash	8,306,424	-		8,590,979	-		-
Total Current Expense Fund Revenues	\$ 50,143,329	\$ 9,196,545	18.34%	\$ 52,969,048	\$ 12,385,564	23.38%	\$ 3,189,019
Criminal Justice Fund	\$ 1,487,168	\$ 325,983	21.9%	\$ 3,283,881	\$ 358,134	10.9%	\$ 32,151
Community Buildings Fund	685,570	(2,575)	-0.4%	767,973	34,501	4.5%	37,076
Regional Athletic Complex Fund	1,173,087	148,324	12.6%	1,233,312	172,261	14.0%	23,937
Street Fund	3,906,339	162,782	4.2%	4,017,012	221,136	5.5%	58,354
Capital Equipment Fund	1,928,195	(14,880)	-0.8%	3,376,487	30,882	0.9%	45,762
Total General Fund Revenues	\$ 59,323,688	\$ 9,816,178	16.55%	\$ 65,647,713	\$ 13,202,477	20.11%	\$ 3,386,299

Revenues:	2021	YTD	2021	2022	YTD	2022	2022-2021
<u>Other Funds</u>	<u>Amended</u>	<u>3/31/2021</u>	<u>YTD % of</u>	<u>Amended</u>	<u>3/31/2022</u>	<u>YTD % of</u>	<u>YTD</u>
	<u>Budget</u>	<u>YTD Actual</u>	<u>Budget</u>	<u>Budget</u>	<u>YTD Actual</u>	<u>Budget</u>	<u>Variance</u>
Arterial Street Fund	\$ 8,948,046	\$ 1,044,628	11.7%	\$ 3,816,998	\$ 1,894,334	49.6%	\$ 849,706
Transportation Improvement Fund	4,641,086	898,853	19.4%	4,750,000	917,668	19.3%	18,815
Lodging Tax	403,500	60,672	15.0%	580,500	109,743	18.9%	49,070
Community Block Grant	170	(140)	-82.6%	122	160	130.7%	300
Hicks Lake Management District	46,581	1,134	2.4%	46,358	2,866	6.2%	1,731
General Obligation Bond	1,718,174	26,358	1.5%	1,261,390	36,752	2.9%	10,395
LID Debt	79,593	(15,923)	-20.0%	70,897	14,086	19.9%	30,008
Building Improvement	1,070,182	(12,457)	-1.2%	5,488,770	33,061	0.6%	45,519
Parks & Open Space	294,589	4,365	1.5%	614,766	5,309	0.9%	944
Regional Athletic Complex Capital	1,567,452	378,650	24.2%	4,076,090	393,352	9.7%	14,702
Water Utility	14,312,811	2,397,354	16.7%	16,010,213	2,747,214	17.2%	349,860
Wastewater Utility	19,256,764	4,692,433	24.4%	20,947,953	5,314,884	25.4%	622,451
Stormwater Utility	4,339,476	1,056,622	24.3%	4,651,470	1,266,523	27.2%	209,901
Reclaimed Water	645	(470)	-72.8%	408	461	113.0%	931
Water Capital	37,108,336	1,101,413	3.0%	28,416,622	1,347,491	4.7%	246,079
Wastewater Capital	14,231,549	511,040	3.6%	12,999,652	708,368	5.4%	197,328
Stormwater Capital	1,649,556	(14,749)	-0.9%	1,927,284	18,322	1.0%	33,071
Reclaimed Water Capital	12,540	(9,127)	-72.8%	7,939	8,954	112.8%	18,081
Water Debt Service	4,426,190	(4,212)	-0.1%	4,779,149	3,905	0.1%	8,117
Wastewater Debt Service	2,643,369	(1,655)	-0.1%	2,893,646	1,741	0.1%	3,396
Stormwater Debt Service	2,101,867	(176)	0.0%	2,352,444	175	0.0%	352
Equipment Rental	3,404,103	756,838	22.2%	3,702,866	896,576	24.2%	139,738
Information Management	2,448,779	491,487	20.1%	2,934,844	710,993	24.2%	219,506
Total Revenues	\$ 184,029,046	\$ 23,179,113	12.60%	\$ 187,978,094	\$ 29,635,414	15.77%	\$ 6,456,301



**FINANCE & ECONOMIC
DEVELOPMENT COMMITTEE**
May 24, 2022

SUBJECT: Bond Reimbursement Resolution

RECOMMENDATION: Upon review and concurrence, motion to recommend full City Council adoption of resolution.

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

ORIGINATED BY: Troy Woo, Finance Department

ATTACHMENTS: 1. [Draft Resolution](#)
2. [Draft Resolution Exhibit A – Official Intent Certificate](#)

FISCAL NOTE:

PRIOR REVIEW:

BACKGROUND:

The Lacey Police Station project has a significant amount of work to be completed, but it has passed some critical milestones including moving from the concept phase to the design phase.

On March 17, 2022, the City Council authorized a memorandum of understanding with the St. Martin's Abbey for the purchase of 11.96 acres of property adjacent to the City Hall campus for the construction and operation of the new Lacey Police Station. Upon completion of the schematic design, the Abbey and City will execute a boundary line adjustment to create the parcel that will be purchased. Once the boundary line adjustment is completed, a formal purchase sale agreement will be executed.

On April 21, 2022, the City Council authorized a professional services agreement which will provide the schematic design for the Lacey Police Station. This design will provide rough construction drawings that offer a general overview of the project's basic features and

construction cost estimates. The schematic design will include site plan, roadway and frontage improvements, utilities, building elevations, and the complete description and locations of all building code elements, such as the HVAC, plumbing, and electrical systems.

Debt financing is the likely source of funding for design, land acquisition, construction, equipping, and other capital expenditures relating to the new Lacey Police Station project. \$4.0 million of reserves have been made available for the anticipated 2021 land acquisition and project schematic design. The first project design expenditures will be incurred shortly. It is timely to begin discussions and planning of the future debt issuance.

Together with the estimated \$40,000,000 the cost of a new police station, debt issue costs and the required revenue bond reserve will be financed. It is anticipated the bonds will have a 20-year repayment schedule.

In anticipation of the issuance of debt obligations, it is recommended a reimbursement resolution be adopted. A reimbursement resolution will allow the City to consider expenses incurred before receiving bond proceeds as “spent”. In other words, the bond proceeds will reimburse an issuer (the City) for capital expenditures that occurred prior to the debt issue. This allows more qualified capital expenditures to be paid by bond proceeds such as project design and the land purchase, so fewer expenditures subject to the federal tax rule relating to arbitrage rebate.

Arbitrage rebate occurs when an issuer borrows at tax-exempt interest rates and invests at higher taxable rates. One notable exception to arbitrage rebate is the two-year spending exception for construction only bond issues. Utilizing the reimbursement resolution will provide the City the largest spending window (24 months plus any reimbursed expenditures) while exposing less of the proceeds to the arbitrage rebate rules.

When reimbursement resolutions are adopted, expenditures may be incurred up to 60 days before the intent to reimburse is declared. The bonds must be issued no later than 18 months after the date of the original expenditure was paid or the date the project to be financed was placed in service, but in no event more than three years after the original expenditure was paid.

The requirements of the intent to reimburse declaration include:

- The declaration of official intent may be made in any reasonable form including a resolution of issuer, action of an authorized person, or specific legislative authorization.
- The declaration of official intent must include a functional description of the project, property, or program to be financed.
- The declaration of official intent must state the maximum amount of debt expected to be issued.

The proposed resolution authorizes the City Manager or the Finance Director to designate expenditures for reimbursement from bond proceeds that may be authorized for issuance by the City Council sometime in the future. *This resolution does not authorize capital expenditures nor obligates the City to issue any debt. Both capital expenditures and the issuance of debt require separate action or approval by the City Council.*

Staff recommends the adoption of a reimbursement resolution delegating the authority to the City Manager and Finance Director to declare the intent to reimburse the City for the costs of certain capital projects from the future proceeds of debt obligations.

ADVANTAGES:

1. Declaring the capital project expenditures maximizes the City's flexibility and helps avoid arbitrage rebate.

DISADVANTAGES:

1. None identified. The reimbursement resolution does not obligate the City to issue bonds, but in the event that it does the identified expenditures are eligible for reimbursement with bond proceeds.

RESOLUTION NO. XXXX

CITY OF LACEY

A RESOLUTION OF THE CITY OF LACEY, WASHINGTON, AUTHORIZING THE CITY MANAGER OR FINANCE DIRECTOR TO DESIGNATE CERTAIN EXPENDITURES FOR POTENTIAL REIMBURSEMENT FROM BONDS THAT MAY BE AUTHORIZED AND APPROVED FOR ISSUANCE BY THE CITY COUNCIL IN THE FUTURE.

WHEREAS, the City of Lacey, Washington (the "City") issues tax-exempt and tax-advantaged obligations from time to time (including bonds, leases and lines of credit) for the purpose of financing its governmental activities, and

WHEREAS, the United States Department of the Treasury has promulgated regulations limiting the ability of the City to use the proceeds of tax-exempt and taxable Build America Bond obligations for reimbursement of prior expenditures, and

WHEREAS, the regulations permit the City to appoint one or more officials for the purpose of identifying and qualifying capital projects for reimbursement purposes, and

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF LACEY, WASHINGTON, as follows:

Section 1. Appointment of City Manager or Finance Director. Pursuant to U.S. Treasury Regulation Section 1.150-2(e)(1), the City Council hereby designates and appoints the City Manager or Finance Director of the City as the responsible officials for the purpose of issuing statements of official intent in compliance with Treasury Regulation Section 1.150-2.

Section 2. Statements of Official Intent. Upon a determination by the City Manager or Finance Director that the costs of a particular capital project may be reimbursed from the proceeds of a tax-exempt or tax-advantaged obligation(s) of the City, the City Manager or Finance Director are authorized and directed to execute a certificate of official intent, substantially in the form attached hereto as Exhibit A. Each certificate so executed shall become a part of the official records of the City available for public inspection and review.

No capital projects will be undertaken unless such projects have been previously approved in the customary manner by the City Council, and the execution of any intent certificate shall not obligate the City to issue any debt all of which shall require separate and additional official approval by the City Council.

PASSED BY THE CITY COUNCIL OF THE CITY OF LACEY, WASHINGTON, this 2nd day of June, 2022.

CITY COUNCIL

Mayor

Attest:

Approved as to form:

City Clerk

City Attorney

CERTIFICATE

I, the undersigned, Clerk of the City of Lacey, Washington (the "City"), and keeper of the records of the City Council (the "Council"), DO HEREBY CERTIFY:

1. That the attached Resolution No. XXXX is a true and correct copy of a resolution of the City Council, as finally adopted at a regular meeting of the Council held on the 2nd day of June, 2022, and duly recorded in my office.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a legal quorum was present throughout the meeting and a legally sufficient number of members of the Council voted in the proper manner for the passage of said Resolution; that all other requirements and proceedings incident to the proper adoption of said Resolution have been fully fulfilled, carried out and otherwise observed; and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand this 2nd day of June, 2022.

City Clerk

(SEAL)

EXHIBIT A

FORM OF OFFICIAL INTENT CERTIFICATE

Pursuant to Resolution No. ____ of the City Council of the City of Lacey, Washington (the "City"), the undersigned, [City Manager/Finance Director] of the City hereby states as follows:

SECTION 1. The City reasonably expects to reimburse the expenditures described herein with the proceeds of debt to be incurred by the City (the "Reimbursement Bonds").

SECTION 2. The maximum principal amount of Reimbursement Bonds expected to be issued is \$_____.

SECTION 3. The expenditures with respect to which the City reasonably expects to be reimbursed from the proceeds of Reimbursement Bonds are for _____ [insert general functional description of the property, project or program].

Dated this ____ day of _____, 20__.

[City Manager/Finance Director]



STATE OF WASHINGTON
DEPARTMENT OF REVENUE

Local Revitalization Financing Program

Why am I receiving this letter?

Your jurisdiction was approved to receive a Local Revitalization Financing (LRF) program project award. Action is needed prior to June 1, 2022, to avoid forfeiting your project award.

What is happening?

Revised Code of Washington (RCW) 39.104.100 (3)(e)(ii) explains any city or county that has been approved for a project award by the department prior to January 1, 2011, and has not imposed a sales and use tax under RCW 82.14.510 by December 31, 2016, must forfeit their project award. However, amounts will not be forfeited if a city or county has sent the department a letter before July 1, 2016, indicating its intent to impose the sales and use tax by July 1, 2022.

The department received your letter indicating you intend to impose the local LRF tax prior to July 1, 2016.

What do I need to do?

A new ordinance or resolution must be adopted to impose the LRF tax. It must specify both the rate of tax to be enacted and the date the tax will take effect.

The ordinance or resolution must be provided to the department 30 days prior to the effective date of the local tax. The local LRF tax may now only be implemented on July 1, 2022. The ordinance or resolution must be received by the department no later than **June 1, 2022** and, if necessary, bonds must have been issued or your project award will be forfeited.

Department Contact Information

We recommend you contact the department for assistance prior to enacting the local LRF tax.

If you have any questions or need assistance, please contact:
Brittney May, Tax Administration Manager
(360) 705-6084
Brittneym@dor.wa.gov