



**FINANCE & ECONOMIC DEVELOPMENT COMMITTEE**  
**THURSDAY, FEBRUARY 6, 2020**  
**1:30 P.M.**  
**COUNCIL CHAMBERS**

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**CREDIT CARD POLICY**

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

**LACEY MAKER SPACE UPDATE**

*RICK WALK, COMMUNITY & ECONOMIC DEVELOPMENT DIRECTOR*  
*(STAFF REPORT)*

**2019 FOURTH QUARTER INVESTMENT REPORT**

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



**FINANCE & ECONOMIC  
DEVELOPMENT COUNCIL**  
February 6, 2020

**SUBJECT:** Credit Card Policy

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

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

**ORIGINATED BY:** Troy Woo, Finance Department

**ATTACHMENTS:**

1. [Draft Resolution No. XXXX](#)
2. [Proposed Credit Card Policy](#)
3. [Resolution No. 767](#)
4. [Current Credit Card Policy](#)

**FISCAL NOTE:**

**PRIOR REVIEW:** None

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**BACKGROUND:**

The City's current credit card policies were adopted in November 1995. While the current policy is adequate, credit card internal controls can be strengthened and it does not allow for City employees to take full advantage of the efficiencies of a credit card system. Adoption of an updated policy is recommended.

RCW 43.09.2855 authorizes local governments to use credit cards of official governmental purchases and acquisitions provided the legislative body adopts a credit card system. The system shall include provisions for the following:

- Distribution of the credit cards
- Authorization and control of the use of credit card funds
- Credit limits

- Payment of the bills
- Any other rule necessary to implement or administer the system

The significant differences between the 1995 policies and the proposed policies are as follows:

- Credit cards may be issued to individual regular status employees rather than limiting the credit card distribution to two generic accounts subtitled “City Manager” and “Finance Director”. The proposed policy discourages the use of generic cards because of bank fraud protection limitations and it hampers the City’s ability to hold purchasers accountable. It is very difficult to isolate the employees responsible for any discrepancies when numerous employees are allowed to use the credit card. If generic cards are issued, additional internal controls will be implemented such as sign out/sign in log sheets and lower transaction limits should be imposed.
- The proposed policy enforces more restricted uses than the current policy. It is expected that the City will have options to limit allowable purchases by commodity codes, which will provide additional internal control tools. For example, travel related commodity code purchases will not be allowed. The City has a separate policy governing travel and it is proposed the City will have separate travel credit cards. The following are key purchasing restrictions included in the proposed policy:
  - Cash advances
  - Personal use of any kind
  - Minor equipment over \$500
  - Travel, lodging, or meals
  - Fuel
- The proposed policy includes a maximum transaction amount of \$1,000 for cards assigned to individuals and monthly limits will be established by the City Manager. It is expected the monthly limit will be \$5,000. The monthly limit will be determined by the amount of aggregate credit the City is able to secure through a credit card provider. The intent of this policy is to provide a convenient and efficient method of purchasing for low value goods and services.
- If for any reason a disallowable charge is not repaid by the cardholder, the city will retain a lien against and a right to withhold funds payable to the employee. Other consequences for misuse include permanent revocation of credit card privileges, assignment of wages, notification to the Washington State Auditor to investigate the issue further, and disciplinary actions. It is expected that cardholders will sign credit card agreements acknowledging the policy and responsibilities with the City before credit cards are issued.

The proposed policy is modeled after policies used by other local governments. These policies and procedures used by other local governments have been reviewed by the Washington State Auditor’s Office.

It is requested that the Finance and Economic Development Committee review the proposed credit card policy, confirm or propose changes to the policy, and advance this issue to the full City Council with a recommendation for approval.

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**ADVANTAGES:**

1. Improves internal controls of credit card purchasing.
2. Provides an efficient method of procurement of low value goods and services.
3. Creates good business relationships with suppliers by shortening payment periods.

**DISADVANTAGES:**

1. Additional administrative and oversight duties will be necessary.

**RESOLUTION NO. XXXX**

CITY OF LACEY

A RESOLUTION OF THE CITY OF LACEY, WASHINGTON, AMENDING THE SYSTEM AND POLICIES RELATING TO THE USE OF CREDIT CARDS BY THE CITY.

WHEREAS, RCW 43.09.2855 authorizes the use of credit cards by governmental units under rules and procedures to be adopted by the legislative body; and

WHEREAS, the City Council deems that it is the best interest of the City to make certain financial payments by using a credit card, and

WHEREAS, improved internal controls have been identified to enhance and to expand the use of credit cards,

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF LACEY, WASHINGTON, that Resolution No. 767 is hereby rescinded and those certain policies set forth in the document entitled City of Lacey Purchasing Card Policy, attached hereto and made a part hereof as though fully set forth at length are hereby approved and adopted as the purchasing card policies to be followed by the City Council and management of the City of Lacey.

PASSED BY THE CITY COUNCIL OF THE CITY OF LACEY, WASHINGTON, this 27<sup>th</sup> day of February, 2020.

CITY COUNCIL

\_\_\_\_\_  
Mayor

Attest:

Approved as to form:

\_\_\_\_\_  
City Clerk

\_\_\_\_\_  
City Attorney

# **CITY OF LACEY PURCHASING CARD POLICY**

## **1. GENERAL**

- A. This policy establishes the rules by which the City will conduct the Purchasing Card Program.
- B. Purchasing Cards are designed to provide a convenient and efficient method of procuring low value goods and services. City users will be able to make these small purchases simply and easily when a need arises. Purchasing Cards will reduce costs associated with processing purchase orders and accounts payable, while creating good business relations with suppliers by speeding up payments to them. These efficiencies will allow all groups and individuals involved to be more effective and focused on the value-added aspect of their jobs.
- C. This policy is divided into the following sections:

SECTION 1	GENERAL
SECTION 2	EMPLOYEE ELIGIBILITY
SECTION 3	PURCHASING CARD USE
SECTION 4	CARD RESTRICTIONS
SECTION 5	MISUSE OF PURCHASING CARD
SECTION 6	CARD CANCELLATION
SECTION 7	ADMINISTRATION

## **2. EMPLOYEE ELIGIBILITY**

- A. Purchasing Cards will be issued to authorized regular status City employees only. The Department Director is responsible for authorizing an employee to use a Purchasing Card. Temporary or seasonal employees are not eligible to participate in the program.
- B. The employee whose name appears on the card is the only individual who may use the card.
- C. If a Department Director requests, a non-individualized “department” card, it may be issued for general use by the department, which must have security measures in place to administer its use. The “department” card has a higher potential for misuse and carries higher risk for the City. It is, therefore, generally discouraged.
- D. An authorized employee will be required to make application and sign and abide by a cardholder agreement.

## **3. PURCHASING CARD USE**

- A. The maximum transaction amount is \$1,000 including all taxes and shipping charges. Under discretion of the City Manager or his designee, the maximum transaction limit can be increased. The maximum monthly limit per card and the City's aggregate monthly limit will be established by the City Manager or his designee.
- B. A Department Director may establish lower limits for department employees.
- C. Use of the purchasing card does not relieve the cardholder from complying with City and departmental policies and procedures. The purchasing card is not intended to replace effective procurement planning which can result in quantity discounts, reduced number of trips, and more efficient use of City resources.
- D. The cardholder will be responsible to report a lost or stolen card by phoning the contracting bank and advising the Finance Department immediately. A Police report shall be filed for a stolen credit card. The Finance Department will confirm the loss in writing to the Bank. Only the Finance Department card administrator may authorize a replacement card.
- E. The following conditions must be met when using the Purchasing Card:
- Each single purchase may be comprised of multiple items, but the total must not exceed the \$1,000 transaction limit.
  - When a purchase exceeds the \$1,000 transaction limit, the normal procedure of using purchase orders must be followed. Purchases must not be split to circumvent the transaction limit.
  - The least expensive item that meets the needs of the department should be sought.
  - Cardholders must follow their department's administrative control of funds procedures to ensure that sufficient budgeted funds are available for the purchase.
  - The cardholder must obtain an itemized receipt from the vendor and submit the receipt along with their reconciled account statement to the Finance Department for timely payment.

#### **4 CARD RESTRICTIONS**

- A. The following list covers purchases for which the Purchasing Cards are specifically prohibited:
- Cash advances or cash refunds
  - Personal use of any kind or any non-City purpose
  - Items purchased for departmental inventories
  - Capital expenditures
  - Minor Equipment over \$500 (Unless purchases are considered to be telecommunications or computer exemptions)
  - Telecommunications equipment, software or services (Only Information Services and Finance are authorized)

- Travel, lodging, or meals while traveling (Except with designated Travel purchasing cards)
- Fuel for City vehicles (Except with designated Fuel purchasing cards)
- Computer hardware, software, or peripherals (Only Information Services employees are authorized)
- Work considered to be a public work
- Goods or services that are on current City contracts

B. A Department Director may specify further restrictions to this list.

## **5 MISUSE OF THE PURCHASING CARD**

A. If for any reason, disallowed charges are not repaid by the cardholder before the card billing is due and payable, the City shall retain a prior lien against and a right to withhold any and all funds payable to the employee up to an amount of the disallowed charges and interest at the same rate as charged by the purchasing card contractor.

B. Consequences for misuse of the Purchasing Card can include:

- Permanent revocation of Purchasing Card privileges
- Assignment of wages for repayment of discrepancies
- Notification to the Finance Director and the Washington State Auditor to investigate the matter further, which may result in the pursuance of criminal charges
- Disciplinary action

## **6 CARD CANCELLATION**

A. A Purchasing Card may be canceled for any of the following reasons:

- The card is lost or stolen
- The employee transfers to another department
- The cardholder whose name is on the card allows another employee to use the card
- An employee uses a card that is not in their name
- The employee retires, resigns, or is otherwise terminated from City employment
- The authorizing Department Director requests cancellation for any reason
- At the City Manager or Finance Director discretion

B. It is the responsibility of the Department Director to advise the Finance Department of the termination or transfer of any cardholder. Finance will then cancel the cardholders Purchasing Card.

## **7 ADMINISTRATION**

A. The Finance Department is responsible for administering this policy.

RESOLUTION 767

CITY OF LACEY

A RESOLUTION ADOPTING A SYSTEM FOR THE DISTRIBUTION, AUTHORIZATION, CONTROL, CREDIT LIMITS, PAYMENT OF BILLS AND OTHER NECESSARY REGULATIONS RELATING TO THE USE OF CREDIT CARDS BY THE CITY.

WHEREAS, Chapter 30, Laws of 1995 expanded the authority for the use of credit cards by local governments and required the legislative authority to create a system of controls for the use said cards,

NOW, THEREFORE,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF LACEY, WASHINGTON, that a system for the use and control of credit cards by the city be adopted containing the following requirements.

1. All credit cards issued in the name of the city shall be distributed only by or through the authority of the city manager.

2. The credit limit for each credit card contract shall be set by the City Manager, provided, however, that such limit shall not exceed \$5,000.

3. Payment of the credit card billings by the city's Finance Department shall be accomplished in a manner to avoid the payment of interest charges.

4. The number of credit card contracts and the use and

purposes of such cards shall be subject to such further rules and regulations as shall be administratively established by the City Manager.

PASSED BY THE CITY COUNCIL OF THE CITY OF LACEY, WASHINGTON, this 16TH day of November, 1995.

CITY COUNCIL

By Jon W. Halverson  
Mayor

Attest:

Approved as to form:

Charpitta In Taylor  
City Clerk

[Signature]  
City Attorney

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## USE OF BANK CREDIT CARDS

### Purpose

To establish a system of use and control of bank credit cards.

### Policy

All credit cards shall be issued in the name of City of Lacey and their use shall be restricted to “**official City business**” associated with travel, authorized purchases, and the acquisition of services. Cash advances are expressly prohibited. All bank credit cards issued in the name of the City of Lacey shall be distributed only by or through the authority of the City Manager. Payment of the credit card billings by the City’s Finance Department shall be accomplished in a manner to avoid the payment of interest charges.

### Procedure

In order to comply with Chapter 30, Laws of 1995 and City of Lacey Resolution 767, the following system of controls and procedures have been established.

1. Credit Card Contracts and Distribution: Credit card contracts are established as part of the banking services contract negotiated by the City. Two accounts are authorized. One account is designated by the subtitle of “City Manager,” the second account has two cards with subtitles of “Finance Director” and “Finance Department.”
2. Authorized Use and Restrictions: Employees may request use of the City’s credit card for authorized travel, purchases, acquisitions, and services where established Advanced Travel and Purchase Order procedures cannot meet the need and best interest of the City. Credit card purchases are subject to the general guidelines, requirements, and limitations of the City’s adopted purchasing policies and procedures.

If anticipated credit card expenditures are estimated to exceed \$300, appropriate departmental authorization must be obtained before the card is issued. This can be accomplished on the Advance Travel Authorization form or Credit Card Use Authorization form provided by the Finance Department.

3. Authorized Signature on Credit Transactions: Before signing the credit transaction receipt, employees are to verify the date, vendor, and the correctness of the charges including the transaction total. **UNDER NO CIRCUMSTANCES ARE EMPLOYEES TO SIGN A CREDIT TRANSACTION RECEIPT THAT IS INCOMPLETE, NOT TOTALED, OR BLANK.** Credit card transaction receipts are to be signed “City of Lacey” followed by the employees signature.
4. Documentation: Upon return of the credit card to the Finance Department, the employee must provide complete documentation of the credit transaction including the “customer’s” copy of the receipt. It is the responsibility of the employee to complete the form provided by the Finance Department indicating the budget account(s) to be charged for their credit purchases.

5. Payment of Credit Card Billings: The Finance Department is charged with the responsibility of paying all credit card billings in a manner to avoid payment of penalties or interest charges. It is therefore required of employees using the City's credit card that they complete all documentation of credit transactions in a timely manner and as prescribed by the Finance Department.



## FINANCE & ECONOMIC DEVELOPMENT COUNCIL

February 6, 2020

**SUBJECT:** Lacey MakerSpace Funding Request

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**RECOMMENDATION:** Recommend dedicating additional funds to provide financial support to the Lacey MakerSpace for the next three years.

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**STAFF CONTACT:** Scott Spence, City Manager *SS*  
Rick Walk, Community & Economic Development Director *RW*  
George Smith, Economic Development Coordinator *ges*

**ORIGINATED BY:** Community & Economic Development Department

**ATTACHMENTS:** 1. [2019 Profit and Loss](#)

**FISCAL NOTE:** A total of \$350,000 would be drawn from the \$2 million reserve funds that the City Council dedicated for economic development investments. Of this \$175,000 would be drawn in 2020, and the other \$175,000 drawn in 2022.

**PRIOR REVIEW:** Discussion at Council Retreat 2016. Presentations to this Committee, Council Worksessions, and Council Meetings in 2017, 2018, and 2019.

### **BACKGROUND:**

As discussed at the City Council Retreat in 2016, the City is committed to working with the Thurston Economic Development Council (EDC) to adopt initiatives that build on Lacey's job growth, encourages new livable wage jobs, expands the tax base, supports attraction of high tech jobs, diversifies the community's business and employment sector, and ensures Lacey's competitiveness.

In support of these goals, and in recognition that makers spaces are a proven tool of economic development that effectively address all of the needs identified by Council at their 2016 retreat, a large group of community members came together to explore the feasibility

of starting a makers space in Lacey. This group represented the Lacey South Sound Chamber of Commerce, North Thurston Public Schools, the Lacey Timberland Library, South Puget Sound Community College, the Evergreen State College, the City, the EDC, St. Martins University (SMU) members of the private sector and private citizen volunteers.

As the group worked through the process, a partnership developed between the City, the EDC, and SMU.

- The EDC agreed to use their 501(c) 3 to serve as fiscal agent, and provide the administrative support Lacey MakerSpace (LMS) needs to operate.
- Based on the criteria for an ideal location for the makers space, a site on the campus of SMU was identified.
- Fundraising got underway, with financial support coming from individuals, businesses, the Port of Olympia, and the Nisqually Tribe.
- The Lacey City Council allocated \$200,000 of economic development reserve funds to launch the Lacey MakerSpace. Of this, \$105,000 secured a three-year lease with Saint Martin's University for the use of Zaverl Hall; \$5,000 for consultant support, and \$90,000 for equipment purchases.

The Lacey MakerSpace opened late last summer, and had its formal grand opening on October 16, 2019. The community has embraced the Lacey MakerSpace, with excellent turnout at events, and enthusiastic new members. The work of the one permanent paid staff member has been leveraged with extensive support from volunteers, as well as the utilization of SMU's work-study program. Grants and gifts have helped to equip the Lacey MakerSpace with the most essential equipment needed to get underway. Equipment has also been donated, including equipment and supplies, from South Puget Sound Community College.

Classes are primarily focused in two areas:

1. Classes targeted toward the workforce and entrepreneurs:
  - 3D Modeling in Fusion 360 (necessary for creating prototypes)
  - Blueprint Reading (a need in the community)
  - Finish Carpentry (another need that employers have asked for)
  - Marketing & Promotional Products (highly valuable for new businesses)
  - Tiny House Design (new market that is opening up thanks to changing regulations)
2. Classes that teach basic skills so entrepreneurs can use the equipment to prototype:
  - 3D Printing
  - Soldering & Electronics
  - Laser Cutting & Engraving
  - Woodshop
  - Welding

The LaceyMaker Space has also had immediate success for individuals to develop entrepreneurial ideas:

1. Entrepreneurs & Business – existing business that are utilizing the LMS to create new/more products:
  - Custom Motorcycle Parts – Two men have developed a business that designs and builds custom motorcycle parts using the Computer Numerical Control (CNC) Plasma Cutter. The MakerSpace remains a foundation to their business.
  - Wedding Planner – This two-woman operation utilizes the laser cutter, woodshop, and vinyl cutter to create wedding favors. Her business has increased dramatically in the past six months.
  - Viola Products – Makes viola-centered products for e-commerce using the vinyl cutter, heat press, 3D printing, and laser to create products for her business.
  - Frontrunner Fabrication – New startup that has been utilizing the 3D printers, laser, and vinyl cutter for custom fabrication orders.
  - KMB Architecture – Utilizes the laser and 3D printers to create models of architectural projects.
  
2. Prototypes – new products coming to market
  - Waterless Toilet – LMS completed an intricate 3D Model of the toilet design that the entrepreneur is having fabricated elsewhere (that has higher-level equipment).
  - Rocket Thruster – LMS completed 3D model that will be shown to investors.
  - Traffic Sign – LMS completed 3D model and 3D printed adaptable traffic light enclosure that will be going to market.
  - AI Mapping Drone – A member of the LMS is working on a prototype of a drone that would produce aerial maps utilizing artificial intelligence. This project is a 12-24 month long project.
  - Child Protection Monitor – A Lacey MakerSpace member is developing a child protection alarm utilizing the fabrication equipment and electrical tools. The project is in process and is expected to continue for six months to a year before completion.
  - Mobile Vehicle Platform – LMS working on design for maker.

Now that the MakerSpace has been operating for six months we can better project operation and maintenance expenses. For 2019, the Lacey MakerSpace had total revenues of \$142,683. Since operations did not begin until well into the 3<sup>rd</sup> quarter, only \$12,076 of that was from operating income. The rest came in donations, including in-kind contributions. Considering the short time in operation, an encouraging sign has been the variety of revenue sources. While memberships (\$7,576) and classes (\$4,045) made up the majority of revenues, there were also revenues from fabrication and retail sales that had not been anticipated as revenue sources when the initial planning for the maker space began

Expenditures for 2019 totaled \$156,799. A major portion of that was for purchases of equipment and supplies (\$59,325). Actual operating expenses were \$97,345. Though the

final 2020 budget has not yet been formally adopted, it is anticipated that the operating expenses for 2020 will be in the range of \$165,000 to \$175,000.

Not surprisingly, the biggest obstacle facing the Lacey MakerSpace is financial. The cost of equipment—and the cost for maintenance and supplies—continues to be a challenge.

The goal of the Lacey MakerSpace board and supporting partners is for the MakerSpace to become a self-sufficient operation supported by the business community and direct users. As the LMS is in its infancy, additional time is needed to develop the community support. To provide that time, the City Council could offer a funding proposal that would rely on a community match to use as incentive for raising support from the community. A three-year commitment would provide stability and time to engage with community funders.

The request is for Council to consider funding the maker space for the first year at \$175,000. During this first year, the staff and board would focus on building support and raising funding from the community as well as federal, state and local grant sources to fund the second year. If the private sector sees value and supports funding second year operations, then, the City would commit to allocating an additional \$175,000 of funding for the third year. This proposal to financially commit an additional \$350,000 will bring the City's total funding support of the Lacey MakerSpace to \$550,000 plus in-kind staff support.

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#### **ADVANTAGES:**

1. The City's support of the Lacey MakerSpace builds on Lacey's job growth through support of entrepreneurship and worker training.
2. This also encourages new livable wage jobs, which expands the tax base.
3. The City's support of the Lacey MakerSpace, supports attraction of high tech jobs, which diversifies the community's business and employment sector.
4. The Lacey MakerSpace creates an environment that fosters the creation of new innovative products, and provides training, both of which ensures Lacey's competitiveness.

#### **DISADVANTAGES:**

1. Resources used in support of the Lacey MakerSpace would not be available for other purposes.
2. The Lacey MakerSpace will need on-going support and public funding to maintain operations until full community financial support is developed.

## LACEY MAKERSPACE

### Profit & Loss

January 1, 2019 through December 31, 2019

#### INCOME

In-Kind Contributions	\$7,000.00
Fabrication	\$371.70
Class Income	\$4,045.43
Retail Sales	\$67.17
Memberships	\$7,575.90
Interest Earned	\$16.16
Port of Olympia	\$15,000.00
City of Lacey	\$90,001.50
Major Donations	\$13,000.00
Work Study Program	\$3,517.50
Misc. Donations	\$2,087.88
<b>Total Income</b>	<b>\$142,683.24</b>

#### EXPENSES

Labor Service Donations	\$7,000.00
CC/Bank Fees	\$291.79
Salary and Wages	\$69,402.20
Subscriptions	\$278.38
Supplies	\$3,934.35
Additional Equipment	\$1,355.73
IT Support	\$132.50
Events	\$160.64
Marketing	\$573.78
Office Expense Other	\$10,145.20
Personnel Benefits- Medical	\$4,595.72
FabLab Consulting	\$1,250.00
Computers and Software	\$1,986.07
Build Out	\$3,064.68
Equipment	\$38,839.98
Insurance	\$2,124.90
Payroll Taxes	\$10,983.99
Non Employee Expense - Instructors	\$815.90
Travel - Mileage	\$13.58
Membership Refund	-\$150.00
<b>Total Expenses</b>	<b>\$156,799.39</b>

Net Income	<b>-\$14,116.15</b>
Beginning Fund Balance	\$44,816.33
Net Income	<b>-\$14,116.15</b>
Ending Fund Balance	\$30,700.18



**FINANCE & ECONOMIC  
DEVELOPMENT COMMITTEE**  
February 6, 2020

**SUBJECT:** Fourth Quarter 2019 Investment Report

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**RECOMMENDATION:** Review Fourth Quarter Investment Report.

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

**ORIGINATED BY:** Troy Woo, Finance Department

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

**FISCAL NOTE:**

**PRIOR REVIEW:**

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**BACKGROUND:**

The City's adopted investment policy requires quarterly reporting to the City Manager and annual reporting to the City Council. At its February 26, 2019, meeting, the Finance and Economic Development Committee requested to review the quarterly reports biannually. Consistent with the adopted investment policy, the City Manager reviews all quarterly investment reports.

The fourth quarter report was developed 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 and discussion about the City's investment strategy.
2. An analysis to ensure the portfolio complies with the City's investment policy in terms of maturity constraints and allocation diversification. This is normally a routine monthly

analysis, but it will be included in the quarterly reports for the first year to communicate compliance during the implementation/transition period.

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 continues to perform well compared to the investment strategy benchmarks.

- The core fund portfolio yield decreased from 2.21 percent to 2.00 percent. The State's Local Government Investment Pool (LGIP) yield decreased from 2.20 percent to 1.78 percent. This is a result of one Fed Fund rate cuts during the third quarter.
- The Federal Reserve cut rates at its October meeting to a range of 1.50 percent to 1.75.
- During its December meeting, the Federal Reserve forecasted that it would most likely not change the Fed Fund rates throughout all of 2020.
- At of the end of the fourth quarter 2019, the portfolio duration was 1.27 years, which is lower than the benchmark duration of 1.40 years.



GOVERNMENT  
PORTFOLIO  
ADVISORS

# Quarterly Executive Summary

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December 31<sup>st</sup>, 2019

## City of Lacey Investment Portfolio Report



Prepared by: Deanne Woodring, CFA  
President - Senior Investment Advisor  
Government Portfolio Advisors  
[www.gpafixedincome.com](http://www.gpafixedincome.com)  
(503) 248-9973

### Market Commentary

**Market Yields:** The yield curve experienced a significant steepening during the quarter with three-month Treasury bills falling 27 basis points while five-year Treasury notes increased by 14 basis points. Two-year Treasury notes declined just five basis points in yield to end the year at 1.57%. The move from an inverted curve to a positively sloped curve is the result of the Fed announcing the end of their easing cycle and an expected pause in rates through 2020. The yield curve is normalizing as yields are expected to consolidate around the current fund funds range of 1.50% to 1.75%.

**FOMC:** The Fed lowered rates by 25 basis points on October 30<sup>th</sup>. This was the third and last ease by the Fed during 2019. During the December meeting, the Fed forecasted that they most likely would not change the fed funds rate throughout all of 2020. The transition from lowering the fed funds level to a stable level should help to normalize the yield curve. If the curve inverts during 2020, it would indicate that the market believes the Fed would need to provide additional stimulus by lowering the fed funds rate below the current level.

**Employment and Inflation:** Nonfarm payroll growth picked up noticeably in November raising the trailing three-month growth in payrolls to a monthly average of 176,000. December nonfarm payrolls will be announced on January 10<sup>th</sup> and are expected to slow slightly to 160,000. The unemployment level held steady at a fifty-year low of 3.50%, while average hourly earnings YOY are growing at a rate of 3.10%. Wage growth is strong enough to continue moderate economic growth without raising inflationary levels. The Fed's preferred rate of inflation is Core PCE growth, which continues to fall short of the Fed's 2.00% target at a rate of 1.60%.

### Market Outlook

**GDP:** Real GDP ended Q3 2019 with a growth rate of 2.10%, which was up slightly from Q2 growth of 2.00%. Q4 2019 GDP is expected to grow at just over 2.00% with Q1 growth slipping back under 2.00%. The phase one trade deal, expected to be signed in January, should take away some of the economic uncertainty experienced throughout 2019.

**Fed Funds:** For the first time since early 2015, the market is expecting a lower probability of any change in the fed funds rate during 2020. The fed funds futures market is pricing in a 62% probability of an additional 25 basis point cut in the fed funds rate by the end of 2020. Thirteen members of the FOMC forecasted the fed funds rate to be unchanged at the end of 2020, while four members forecasted fed funds to be 25 basis points higher. No FOMC member is expecting fed funds to be lower than the current rate for the next three years.

**Two-year Yield Expectations:** The two-year yield forecasted by the top 80 economists contributing to Bloomberg expect two-year yields to finish at 1.60% for Q1, 1.61% for Q2, 1.62% for Q3, and 1.64% for Q4. Current two-year note yields are trading at 1.58%.

**Portfolio Positioning:** During Q1 2020, GPA is recommending portfolio durations stay close to their respective benchmark durations and slightly underweight longer maturities due to expectations of curve steepening throughout 2020. Credit spreads are very tight to treasuries and credit selections should be over-weighted in the short end of the portfolio and under-weighted in longer maturities.

Quarterly Yield Change

	3/31/19	6/30/19	9/30/19	12/31/19
3-month bill	2.38	2.09	1.81	1.54
2-year note	2.26	1.76	1.62	1.57
5-year note	2.23	1.77	1.54	1.69
10-year note	2.41	2.01	1.67	1.92

Economists' Survey Projections

	Q1-20	Q2-20	Q3-20	Q4-20
Real GDP	1.70	1.90	1.80	1.80
Core PCE (YOY%)	1.90	1.90	1.90	2.00
Unemployment	3.60	3.60	3.60	3.70

Economists' Survey Projections for Rates

	Q1-20	Q2-20	Q3-20	Q4-20
Fed Funds	1.65	1.60	1.55	1.55
2 Year	1.60	1.61	1.62	1.64
10 year	1.82	1.86	1.91	1.93

Sources: Bloomberg



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Strategic Quarterly Update for the City of Lacey  
Quarter End December 31, 2019

Investment Strategy:

- The portfolio complied with the Investment Policy and State Investment Statutes throughout the quarter.
- The Core Portfolio duration shortened from 1.35 to 1.27 years. The portfolio duration of 1.27 years is slightly shorter than the 0-3-year Treasury benchmark duration of 1.40 years. The Core Portfolio balance was stable at 100 million in par value.
- The Liquidity Fund balance increased slightly to \$ 82.4 million. The portfolio balance for all funds increased from \$182 million to \$182.4 million.
- During Q4 2019, interest rates declined slightly for maturities shorter than three years and rose slightly for issues longer than three years. The two-year Treasury note declined five basis points during the quarter to a year-end yield of 1.57% while the five-year note rose 15 basis points to a year-end yield of 1.69%.
- The Fed Funds rate was cut once during Q4 from a range of 1.75%-2.00% to a range of 1.50%-1.75%. The market is pricing in a 62% probability of another 25-basis point cut at the end of 2020. The Fed's DOT Plot, which graphs each member's forecast for the future fed funds rate, has rates on hold for the remainder of 2020 and projects a return to hikes in 2021.
- During Q1 2020, GPA is expecting short duration Treasury notes to trade lower in a tight range around current levels with a slight bias to lower yields. Economic conditions are slowly improving, but significant risks still exist geopolitically and in future trade negotiations that are not priced into the market. We are recommending that portfolios maintain a neutral duration posture in this environment with a slight underweighting in longer maturities due to the expectation of a steeper yield curve as the Fed is set to allow inflation to return.
- Investment Activity:
- There were two maturities in the core fund during the quarter for \$6 million, which was reinvested into \$4 million Treasuries and \$2 million in taxable municipal bonds. The taxable bonds are general obligations of the State of Oregon.

Investment Performance:

- The total portfolio book yield declined from 2.21% to 2.00% during the quarter. The book yield of the Core Portfolio decreased from 2.21% to 2.18%, and the Liquidity Portfolio yield decreased from 2.21% to 1.78% with the drop in the rate of the LGIP.
- The total return for the Core Portfolio, which includes all changes in market value (realized and unrealized), outperformed the return of the benchmark portfolio by two basis points after all fees during Q4. The Core Portfolio return was 0.54% (net of fees) versus the return of the benchmark at 0.52%. The total return includes price change and interest income.
- At quarter-end, the portfolio had unrealized gains of \$658,135.

GPA Reporting Updates:

- GPA has completed their reporting system transition to Clearwater Analytics. The new system allows you to have a direct portal that is linked to your custodial bank. Our reporting goal is to provide you with the tools to easily access your portfolio, which will help to improve transparency and accountability regarding your investment program.
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# Total Funds City of Lacey

# Compliance Report

Policy 2018 | 12/31/2019

Maturity Constraints	Policy Requirement	% of Total Accumulated	Portfolio Allocation	Within Limits	Minimum Ratings at Purchase			
Under 30 days	10%	50%	\$ 92,391,769	Yes		S&P	Moody's	Fitch
Under 1 years	25%	66%	\$ 121,473,415	Yes	Muni's	AA-	Aa3	AA-
Under 5 years	100%	100%	\$ 183,207,636	Yes	Corp Bonds	AA-	Aa3	AA-
					C P	A-1+	P-1	F1
Maximum Weighted Average Maturity	2 Years		0.76	Yes	B A	A-1+	P-1	F1
Maximum Weighted Average Maturity Corp Credit	3 Years			Yes				
Maximum Callable Securities	25%		\$ -	Yes	Policy states ONE rating meets requirement			

Asset Allocation Diversification	Maximum Policy Allocation	Issuer Constraint	Percentage of Portfolio	Market Value	% Within Limits	Ratings Compliance	Issuer Compliance
US Treasury Obligations	100%		27.94%	\$ 51,197,330	Yes		
US Agencies Primary	100%		24.34%	\$ 44,584,774	Yes		
FHLB		35%	9.41%	\$ 17,235,498	Yes		
FNMA		35%					
FHLMC		35%	0.00%	\$ -			
FFCB		35%	14.93%	\$ 27,349,276	Yes		
US Agencies Secondary	10%	5%	0.00%	\$ -			
Supranationals Notes	10%	5%					
Municipal Bonds	30%	5%	1.09%	\$ 1,988,860	Yes		Yes
City of Lacey Interfund Loans	20%						
Corporate Notes	25%	3%	1.66%	\$ 3,040,824	Yes	Yes	Yes
Commercial Paper							
Certificates of Deposit	20%	5%	0.00%	\$ -			
Bank Time Deposits / Savings	20%		7.19%	\$ 13,181,725	Yes	*	*
Bankers Acceptances	10%	5%	0.00%	\$ -			
Local Government Investment Pool	100%		37.78%	\$ 69,214,124	Yes	**	**
Total			100%	\$ 183,207,636			

\* FDIC or collateralized

\*\* Ratings & Issuer restrictions do not apply to pool funds

## STRATEGY REPORT

**Benchmark: ICE BAML 0-3 year Treasury**

Name	Par Amount	Total Adjusted Cost	Market Value	Unrealized Gain/Loss	Yield At Cost	Eff Dur	Bench Dur
City of Lacey Investment Core Fund	\$ 100,000,000	\$ 100,153,653	\$ 100,811,788	\$ 658,135	2.18	1.27	1.40
City of Lacey Liquidity	\$ 82,395,849	\$ 82,395,849	\$ 82,395,849	\$ -	1.78	0.05	0.10
TOTAL PORTFOLIO	\$ 182,395,849	\$ 182,549,502	\$ 183,207,636	\$ 658,135	2.00	0.72	0.82



# Total Funds City of Lacey

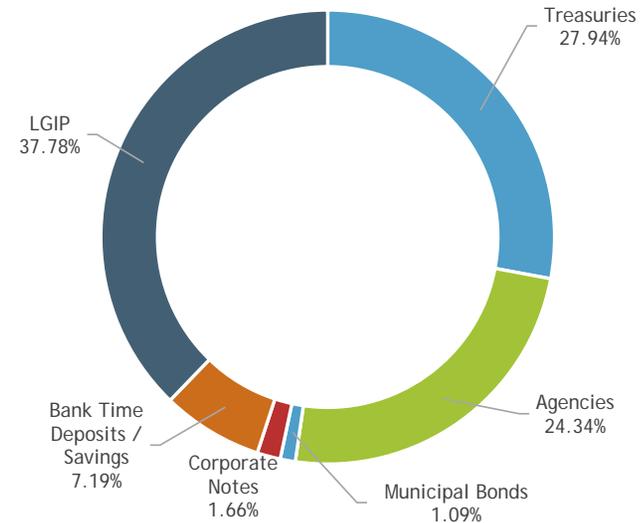
For Period October 01, 2019 - December 31, 2019

# Investment Report

Policy 2018 | 12/31/2019

## HOLDINGS DISTRIBUTION

Investment Holdings at 12/31/2019	Market Value	% of Total Portfolio	Maximum Per Policy
US Treasury Obligations	\$ 51,197,330	27.94%	100%
US Agencies Primary	\$ 44,584,774	24.34%	100%
Municipal Bonds	\$ 1,988,860	1.09%	30%
City of Lacey Interfund Loans	\$ -	-	20%
Corporate Notes	\$ 3,040,824	1.66%	25%
Commercial Paper	\$ -	-	0%
Certificates of Deposit	\$ -	-	20%
Bank Time Deposits / Savings	\$ 13,181,725	7.19%	20%
Bankers Acceptances	\$ -	-	10%
Local Government Investment Pool	\$ 69,214,124	37.78%	100%
<b>Total Portfolio</b>	<b>\$ 183,207,636</b>	<b>100.00%</b>	



### % of Portfolio With One Issuer:

Corporate Notes	\$ 3,040,824	1.66%	5%
State Obligations	\$ 1,988,860	1.09%	5%

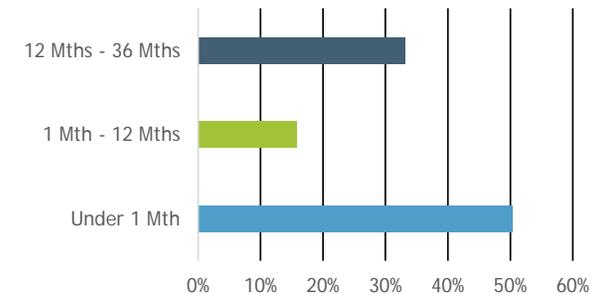
## MATURITY DISTRIBUTION

Maturities from 12/31/2019	Per Maturity Bucket		Cumulative	
	Market Value	% of Total Portfolio	% of Total Portfolio	Minimum Per Policy
Under 1 Mth	\$ 92,391,769	50%	50%	10%
1 Mth - 12 Mths	\$ 29,081,646	16%	66%	25%
12 Mths - 36 Mths	\$ 60,741,662	33%	99%	100%
36 Mths - 60 Mths	\$ 992,560	1%	100%	0%

Average Maturity on 12/31/2019  
Average Maturity of portfolio  
(excluding bank / LGIP deposits)

0.76 Years  
1.28 Years

Maximum Per Policy  
3 Years



## ACTIVITY & PERFORMANCE SUMMARY

Activity Summary	This Quarter	Fiscal Year-to-Date
Beginning Amortized Cost	\$ 182,094,556	\$ 155,200,883
Investment purchases	\$ 6,019,219	\$ 62,151,325
Investment maturities and sales	\$ (6,000,000)	\$ (22,000,000)
Amortization	\$ 43,289	\$ 180,337
Net cash deposit (withdrawals)	\$ 392,438	\$ (12,983,044)
Realized Gain/Loss	\$ -	\$ -
Ending Amortized Costs	\$ 182,549,502	\$ 182,549,502

Market Value on 12/31/2019 \$ 183,207,636

Performance Summary	This Quarter	Fiscal Year-to-Date
Amortization	\$ 43,289	\$ 180,337
Interest income	\$ 898,797	\$ 3,678,821
Realized gain (loss)	\$ -	\$ -
Total income	\$ 942,086	\$ 3,859,158
Average portfolio balance	\$ 182,912,578	\$ 167,286,182

Total Portfolio yield at cost on 12/31/2019 2.00%  
Investment Portfolio yield at COST (excluding bank / LGIP depos) 2.18%  
Local Government Investment Pool interest rate 1.78%



### **Disclaimer**

This material is based on information obtained from sources generally believed to be reliable and available to the public; however, GPA cannot guarantee its accuracy, completeness, or suitability. This material is for purposes of observations and oversight and is the opinion of the author and not necessarily of GPA, LLC. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this document is not an offer to purchase or sell any securities.

### **Definition and Terms**

**Maturity Distribution:** The policy limits maturity risk in the portfolio by establishing a maximum weighted average maturity of the overall portfolio at 3 years, the maximum single issue maturity at 5 years and a limit on callable securities of 50% in the portfolio.

**Investment Component:** This is the amount of the overall portfolio balances that are in excess of liquidity requirements and invested in open market securities to add returns to the portfolio above LGIP rates.

**Liquidity Component:** This is the amount of the overall portfolio balances that are held in short term liquid investments to meet ongoing operational budgets and cash flows. An annual assessment of this amount is evaluated through a questionnaire process determining liquidity needs and City preferences, (Guiding Portfolio Strategy "GPS") completed by Government Portfolio Advisors.

**Portfolio Summary:** Provides of summary of **Par Amount** (face value of the security), **Original Purchase Adjusted cost** (adjusted by amortization to date) and **Market Value** by portfolio component of liquidity and core fund. **Yield at cost** is the earnings rate, **Modified Duration** is the risk measure used to determine the price volatility of the portfolio and is based on the cash flows to maturity. The comparison of the portfolio duration to the benchmark duration is used to articulate the positioning of the portfolio relative to the benchmark based on market risk. If the portfolio is longer in duration than the benchmark it will do better when rates fall versus the benchmark. If the portfolio duration is shorter than the benchmark it will perform better when rates rise. The benchmark is established through the GPS process and creates a discipline to managing the portfolio.

**Weighted Averages:** Calculates the allocation per bond on a weighted basis to the total portfolio for the book yield, maturity and coupon. **Book Yield** is the overall interest rate earned by an investor who buys the bond today at the market price, assuming that the bond will be held until **maturity** (the final date for payment of principal and interest), **Coupon** is the interest paid on a bond, usually semi-annual, expressed as a percentage of the face value (par) of a bond.

**Fixed Income Totals:** Summary of key elements of the portfolio. Realized Gain/Loss is calculated as the difference between the amortized cost and the market value. The estimated annual cash flow is the weighted average coupon cash flow generated from the portfolio and does not include amortization or accretion.