



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

Insurance Building, PO Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0555

December 17, 2020

The Honorable Jay Inslee, Governor
Honorable Members of the Legislature
Citizens of the State
State of Washington
Olympia, WA 98504

In accordance with Revised Code of Washington 43.88.027, the Office of Financial Management has prepared this Comprehensive Annual Financial Report (CAFR) of the state of Washington for the fiscal year ended June 30, 2020. Full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control established for this purpose, rests with the state. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The State Auditor has issued an unmodified (“clean”) opinion on the Washington state financial statements for the fiscal year ended June 30, 2020. The independent auditor’s report is located at the front of the financial section of this report.

Management’s Discussion and Analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Following the MD&A are the basic financial statements, including the government-wide financial statements, the fund financial statements, and the notes to the financial statements. The required supplementary information, combining financial statements, individual fund schedules, and the statistical section complete the CAFR.

Profile of Washington State

Washington state was created in 1889 by an enabling act of Congress. The state is located on the Pacific Coast, in the northwestern corner of the continental United States, and comprises 71,298 square miles. Its current population is 7.7 million. Washington is famous for its breathtakingly beautiful scenery and sharp contrasts. On the west side of the state, high mountains rise above coastal waters. The forests of the Olympic Peninsula are among the world’s rainiest places. The state’s coastline features hundreds of bays and inlets that make excellent harbors, while in the eastern part, flat semi-desert land stretches for long distances without a single tree.

Washington's location makes it a gateway for land, sea, and air travel to Alaska and Pacific Rim countries. Ships from all parts of the world dock at Washington ports. Costco Wholesale Corporation, headquartered in Issaquah, operates an international chain of membership warehouses. Microsoft, a global leader in the computer software industry, makes its home in Redmond. Amazon.com, a major internet retailer, Starbucks, a worldwide renowned coffee company, and Weyerhaeuser Company, a major producer of wood and related products, are headquartered in Seattle.

East of the Cascade Mountain range, farmers raise livestock and grow a variety of crops such as wheat, potatoes, and tree fruits. Washington leads the nation in apple and hops production, makes world-class wine, and produces large amounts of lumber, pulp, paper, and other wood products. Western Washington's mild, moist climate makes that region excellent for dairy farming and the production of flower bulbs.

GOVERNMENTAL STRUCTURE

As established in the state Constitution, Washington state has Executive, Legislative, and Judicial branches of government. The Executive Branch is composed of nine elected officials: the Governor, Lieutenant Governor, Secretary of State, State Treasurer, State Auditor, Attorney General, Superintendent of Public Instruction, Insurance Commissioner, and Commissioner of Public Lands. Thirty-nine agency heads are appointed by, and report to, the Governor. Seventy-eight agency heads report to boards appointed, in whole or in part, by the Governor. The Legislative Branch is composed of the Senate (with 49 members) and the House of Representatives (with 98 members). The Judicial Branch is composed of the State Supreme Court, the highest court in the state, which has nine Justices. Every two years, three Justices are elected for six-year terms. A Chief Justice is chosen from among the most senior Justices. The Judicial Branch also includes the state's superior courts, justices of the peace, and such inferior courts as the Legislature may provide.

TYPES OF SERVICES PROVIDED AND REPORTING ENTITY

The state provides a wide range of services that include education, transportation, environment and natural resource protection, and social and health services.

The accompanying report includes all funds and subsidiary accounts of the primary government, Washington state as legally defined, as well as its component units. Component units are legally separate entities for which the primary government is financially accountable or ones that have relationships with the state such that exclusion would cause the state's financial statements to be misleading or incomplete. Note 1.A to the financial statements explains more fully component units which are included in the reporting entity.

THE BUDGET CYCLE

Washington enacts budgets for a two-year cycle, beginning on July 1 of each odd-numbered year. By law, the Governor must propose a biennial budget in December, the month before the Legislature convenes in regular session. The biennial budget enacted by the Legislature can be modified in any legislative session through changes to the original appropriations. Since the inception of annual legislative sessions in 1979, it has become common for the Legislature to enact annual revisions to the state's biennial budget. These revisions are referred to as supplemental budgets.

Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year in the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level. The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances.

Washington State's Economic and Revenue Outlook

Washington's economic performance throughout much of 2020 has been constrained by the state's efforts to contain the COVID-19 virus. Higher risk economic activities that involve close physical proximity between workers, workers and consumers, or where consumers are in close proximity to each other, have been tightly controlled to help limit virus transmission. This has resulted in unprecedented job losses striking the entertainment, hospitality, personal services, and food and beverage sectors particularly hard. The initial wave of job losses has run its course and over 246,000 workers have resumed work since April. However, as of September, the state still had 247,000 fewer jobs than in March. The state's recovery pattern is without precedent since this recession is primarily a public health crisis with serious economic consequences, compared to the more typical economic crisis with public health consequences. The job impact of the Great Recession lasted 70 months, from initial job losses to full recovery to the prior job peak. The recovery is not expected to take nearly as long this time, though the number of permanent job losses and permanent business closures may have longer-term consequences.

Washington's jobless rate moved above the national rate during the past three years after having mirrored the national figures for much of the economic recovery. The state's rate has traditionally been higher than the national norm because of its outsized share of seasonal industries and its attractiveness to in-migrants searching for opportunity and the Northwest experience. Over the past four years, 74 percent of Washington's population growth came from migration. More recent forecasts expect Washington's jobless rate to remain above the national average, likely the result of strong population growth and the accompanying frictional lag in employment. In fundamental ways, this reflects the confidence workers have in finding gainful employment. By the end of the next biennium (2021–23), Washington's unemployment rate is projected to decline to 4.6 percent from 7.8 percent in September 2020.

Personal income in Washington is expected to moderate over the next two fiscal years after concerted efforts to provide federal pandemic relief money to individuals and households, which boosted fiscal year 2020 real (inflation adjusted) personal income by 5.6 percent. Real personal income should gain 0.9 percent in fiscal year 2021, decline by 0.4 percent in fiscal year 2022, and grow by 3.2 percent in fiscal year 2023. That is measurably higher at the end of the forecast period than the respective 0.0 percent, -0.8 percent, and 3.2 percent projections for the nation. On a per-capita basis, Washington's real personal income should reach \$60,836 in fiscal year 2023, nearly \$8,000 above the U.S. average.

These gains in Washington's personal income will happen despite the decline in aerospace employment, a traditional driver of Washington's economy. Aerospace jobs are expected to drop from 87,600 jobs in fiscal year 2020 to 72,700 jobs in fiscal year 2023. Even though Washington's nonfarm employment is projected to decline 1.1 percent in fiscal year 2021, the state is projected to net a 4.0 percent increase in total payroll jobs in fiscal year 2022, and 2.7 percent in fiscal year 2023, thanks to gains in software publishing, electronic shopping and mail orders, and other technology sectors.

Construction activity in Washington is expected to trend to a more historically normal level in the next several fiscal years. While growth in the technology sectors prompted demand for new office space, the commercial sector does tend to overbuild, leading to subsequent periods of higher vacancies and gradual absorption. Building permits should total 43,900 in fiscal year 2021, 43,500 in fiscal year 2022, and 42,100 in fiscal year 2023. As a result, construction employment should move down to 201,000 jobs in fiscal year 2023 from 211,400 jobs in fiscal year 2020. That should lower the share of construction jobs to 5.6 percent of total nonfarm employment, the historic average. At the height of the building boom in fiscal year 2019, construction jobs represented 6.3 percent of total nonfarm employment.

General Fund-State revenues grew 10.0 percent in fiscal year 2018 and 3.3 percent in fiscal year 2019. General Fund-State revenues are forecasted to finish fiscal year 2020 up 6.2 percent, and are expected to grow 2.3

percent in fiscal year 2021, 4.8 percent in fiscal year 2022, and 4.2 percent in fiscal year 2023. The recovering economy, rebounds in hiring, and a steady housing market should keep revenues growing at a moderate pace.

Major Initiatives

EDUCATION

K-12 enhancements. In 2018, the state took the final step to amply fund its basic education program. As a result, in 2018, the state Supreme Court determined that the state had met its obligation to adequately fund basic education under the 2012 *McCleary v. State of Washington* decision. Governor Jay Inslee and the Legislature fully implemented the *McCleary* funding plan in the 2018-19 school year. This brought the total new state funding for school districts to \$6.6 billion over the 2017-19 and 2019-21 biennia.

With the *McCleary* obligation met, policymakers began exploring enhancements to the K-12 education system. In 2019, the Governor signed a biennial budget that added \$607 million in new policy investments for public schools. The 2020 supplemental budget, passed by the Legislature, did not contain major new policy investments for public schools. However, it did help cover ongoing costs to meet the state's obligation to fully fund public schools.

Higher education. Actions the state took during the 2019 legislative session boosted higher education funding by \$600 million. These actions also enacted a new business tax to support investments in career-connected learning, financial aid, higher education employee compensation, new enrollments, and general operating funds for public colleges and universities. The legislation also guaranteed the new Washington College Grant to all eligible students starting in fiscal year 2021. The bill renamed and expanded the State Need Grant to serve more than 110,000 eligible students with family incomes at or below the state median family income (\$92,000 for a family of four).

The 2020 supplemental budget provided additional workforce investments, including \$2.4 million in one-time funding to expand incumbent worker training to serve 2,500 students in the Job Skills Program.

Early learning and child care. The budgets for the 2019–21 biennium included nearly \$78 million of new investments in early learning. That included \$19.5 million to add spaces in the Early Childhood Education and Assistance Program, the state's preschool program for children from low-income families. More than 500 slots were added in the 2019–20 school year and another 662 slots were added in the 2020–21 school year.

The state's 2020 supplemental budget included nearly \$74 million of new investments in early learning. Of this total, \$31.9 million will be used to bring subsidized child care rates from the 55th percentile of market rate to the 65th percentile of market rate. This program, Working Connections Child Care, provides a child care subsidy for low-income families who work or participate in education or job training activities.

HEALTH AND HUMAN SERVICES

Covering more people, providing better care at lower costs. Governor Inslee's Healthier Washington Plan will transform health care so that people experience better health during their lives, receive better care when they need it, and get more affordable and accessible care.

Foundational public health services. The Washington State Department of Health coordinates a partnership with counties and tribal governments to address the key areas of communicable disease, environmental health, and assessment and support activities for these areas.

Continue behavioral health integration efforts. Integrating physical and behavioral health care in the state continues with most areas of the state having successfully transitioned. This integration helps consumers navigate the health care system more effectively and receive better coordinated, high-quality, and cost-effective care. The remaining regions integrated behavioral health and physical health services on January 1, 2020.

Transform the behavioral health system. Governor Inslee rolled out his multi-year plan for transforming the behavioral health system. It includes decentralizing long-term civil mental health commitments, creating forensic centers of excellence at the state psychiatric hospitals, and building recovery-based services and supports in the community. Long-term inpatient civil commitments will transition from two large state institutions to smaller, community-based facilities that treat patients more effectively in their home communities, closer to family and friends. These include a mix of state-owned and -operated facilities and private providers. Regional recovery-based services and supports will ensure individuals receive the appropriate level of care in the right settings, with a goal of diverting individuals from inpatient commitments.

Help at-risk children and families thrive from the start. In 2016, the Governor convened the Blue Ribbon Commission on Children and Families, a group of experts who recommended bringing together early learning and family support services into one agency. As a result, the state launched the Department of Children, Youth, and Families in 2018 to deliver preventive family interventions and equity in services for all Washington children. The agency provides all services previously housed in the Department of Early Learning and some services that the Department of Social and Health Services used to provide. This includes juvenile rehabilitation, which transferred to the new agency in fiscal year 2020.

Reduce homelessness. Several large efforts are underway to address the state's homelessness crisis. This includes new funding for temporary rent assistance, permanent supportive housing programs, and emergency sheltering, and an increase in grant awards to enrollees in several social and health programs.

ECONOMY

Paid family and medical leave. In 2019, Washington began collecting premiums to launch its best-in-the-nation paid family and medical leave program, approved on a bipartisan basis by legislators in 2017. Beginning in 2020, employees could become eligible for up to 12 weeks of paid medical leave and up to 12 weeks of paid time off to care for a new child, an ailing family member, or a personal medical event. Depending on their earnings, employees will receive up to 90 percent of their wages or up to \$1,000 per week.

Ensure statewide broadband access. Many communities don't have access to adequate broadband services, which limits residents' ability to be part of emerging educational and economic opportunities or to access modern-day medical and emergency management services. Governor Inslee has worked with legislators and local communities to expand broadband access to every corner of the state. This involves setting up a statewide broadband office and investing in additional grant and loan programs.

ENVIRONMENT AND ENERGY

Reduce carbon pollution. In 2017, the state put in place a clean air rule that requires major emitters of greenhouse gases to limit and reduce carbon pollution, and incentivizes investments that reduce fossil fuel use and accelerate the adoption of clean energy. However, the rule is on hold pending legal appeals.

Meanwhile, in the last two years, the Legislature passed a suite of legislation to cut greenhouse gas emissions. Washington is now required to have 100 percent clean electricity by 2045. The state imposed new standards for more energy-efficient buildings and appliances. Washington also joined other states in adding requirements to phase down greenhouse gases that potentially contribute to global warming, such as hydrofluorocarbons and perfluorocarbons used in air conditioners and appliances. Last year, the state updated its greenhouse gas emission reduction targets to align with the latest climate science and established a goal to reduce emissions to

95 percent below 1990 levels by 2050. In addition, the state updated the state motor vehicle emission standards to require the state to implement California's Zero Emission Vehicle Program.

While attending the Paris Climate Conference in December 2015, Governor Inslee announced a commitment to double the state's electric vehicle deployment in the state fleet to 20 percent. In 2019, he established the goal of 50 percent electric vehicles for the state fleet by 2020. To date, the state has exceeded the goal for new vehicle acquisitions, with zero emission vehicles comprising almost 30 percent of new purchases since the announcement.

The Governor is a founding chair of the U.S. Climate Alliance, a bipartisan coalition of 17 states that stepped up to ensure the United States makes progress on the Paris Climate Agreement. Washington continues its work with its partners in the Pacific Coast Collaborative, a west coast initiative for climate action and leadership, as well as with dozens of states and regions around the world whose leaders signed the Under 2 MOU, a global commitment to shrink greenhouse gas emissions.

Strengthen the shellfish industry. Through state, local, tribal, federal, and nonprofit partnerships, Governor Inslee is leading efforts to reopen shellfish growing areas closed due to pollution, restore native Olympia oysters, and improve coordination and predictability for the permitting processes.

Oil transportation safety. An unprecedented volume of oil is now moving along Washington's rail lines. The state is working to keep communities safe and provide the best tools to prevent and respond to oil spills. In 2018, the state enacted legislation to address higher risks from the transport of sinking oils, provide more revenue for oil spill prevention by expanding the oil spill tax to pipelines, and develop recommendations to improve vessel safety. In 2019, the state enacted additional legislation that required oil tankers and articulated tug barges be escorted by tugs when traveling through Rosario Strait. The state is also studying whether similar escort requirements should be adopted in other parts of the Puget Sound.

Orca recovery. In March 2018, the Governor signed Executive Order 18-02 to create the Southern Resident Killer Whale Recovery Task Force to identify, prioritize, and support the implementation of a long-term action plan for Southern Resident orca recovery. Their population has dropped to 74, the lowest number in more than 30 years.

The task force completed its initial recommendations in November 2018. The plan addresses three primary threats to these marine mammals: prey abundance, toxic contaminants, and disturbance from noise and vessel traffic.

In 2019, the Legislature passed five bills to mitigate these threats. These included lessening the impacts of small vessels and the whale watching industry; cutting the risk of oil spills; improving salmon habitat protection; and reducing toxic substances in consumer products. Overall, the state appropriated \$1.1 billion for investments in programs and projects to:

- Benefit Southern Resident orca and Chinook salmon, their primary prey. This includes protecting and restoring habitat.
- Remove state-owned fish passage barriers.
- Boost hatchery production.
- Acquire one new hybrid electric ferry and convert two ferries to hybrid electric.
- Clean up contaminated sites.

The task force completed its work by providing final recommendations to the governor and Legislature in November 2019. Work continues to oversee implementation of all of the task force recommendations.

TRANSPORTATION

Construction. The Interstate 405, Renton to Bellevue Widening and Express Toll Lanes project moved from design into the construction phase in 2020.

The Governor's Construction Restart Roundtable developed new COVID-19 job site requirements. This allowed 65 Washington State Department of Transportation projects that had been shut down during the pandemic in late March to safely restart with a 30-point safety plan by late April.

Clean transportation. The state was approved to use up to \$35 million of Volkswagen settlement funds to begin the planning and design of the first ferry conversion from diesel to electric.

Electrification of Washington roadways. In the summer of 2019, the state exceeded Governor Inslee's goal of 50,000 plug-in electric vehicles by 2020. To support EV vehicle use, the state installed 15 new charging stations along its major highway corridors to bridge charging gaps.

ONE WASHINGTON

One Washington is a transformation program focused on improving and modernizing business processes for the state. This will bring about better financial management and operational efficiencies. The team recently selected Workday as the enterprise resource planning solution for the state and the team will soon select a vendor (systems integrator) to implement the new software.

Phase 1a and 1b of the Workday implementation includes replacing the state's current Agency Financial Reporting System and rolling out the purchase-to-pay functionality. This will make it easier to track agency financial activities and help leaders make more informed decisions about how money is spent. The new system is expected to go live in fiscal year 2023.

The program is supported by Executive Order 19-04, One Washington: Modernization of State Administrative Business and Systems, which aligns with Governor Inslee's strategic priorities to create a modern work environment while driving innovation and accountability across the state.

RESULTS WASHINGTON

Washington is a recognized national leader in adapting proven industry principles to continually improve state government. Governor Inslee established Results Washington in 2013 to strengthen performance management and continuous improvement throughout state government. Results Washington is a collaborative partner championing the best results for Washington. Aside from partnering with agencies to do work in line with its mission, Results Washington provides a valuable platform for agencies to highlight their work directly with the Governor and staff.

In May 2020, the governor appointed a new director for Results Washington. With this new leadership, the program is evolving and adjusting several aspects of its work:

- Introducing Public Performance Reviews in early 2021. This is a new approach to the previous iteration of Results Reviews, which will partner with state agencies on complex, cross-enterprise projects.
- Moving the ninth Annual Washington State Lean Transformation Conference to a virtual setting. This includes thinking innovatively about the content and how it is delivered.

- Thinking ahead to the next phase of Lean and continuous improvement in Washington. With agency inputs, Results Washington will evaluate and adjust its approach in alignment with the “plan-do-check-adjust” continuous improvement methodology.
- Defining Results Washington’s role in the state government performance management space. The program is putting updates to most existing metrics and dashboards on hold while it stands up the new review process.

You can find more information at www.results.wa.gov.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Washington for its CAFR for the fiscal year ended June 30, 2019. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, with contents conforming to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Washington state has received a Certificate of Achievement for the past 33 years. The Office of Financial Management considers this report to be in conformity with the Certificate of Achievement Program requirements and will submit it to the GFOA.

The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of each state agency and the Office of Financial Management. This CAFR reflects the Governor’s commitment to the Legislature, the citizens of Washington state, and the financial community to maintain financial statements in conformance with the highest standards of financial accountability.

Sincerely,



David Schumacher
Director