

MD&A
Management's Discussion and Analysis

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MD&A

Management's Discussion & Analysis

As managers of the state of Washington, we offer this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2021. We present this information in conjunction with the information included in our letter of transmittal, which can be found preceding this narrative, and with the state's financial statements, which follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- Total assets and deferred outflows of the state of Washington exceeded its liabilities and deferred inflows by \$28.63 billion (reported as net position). Of this amount, \$(13.40) billion was reported as "unrestricted net position." A negative balance indicates that no funds were available for discretionary purposes.
- The state of Washington's governmental funds reported a combined ending fund balance of \$24.15 billion, an increase of 21.7 percent compared with the prior year.
- The state's capital assets increased by \$700.2 million, total bond debt increased by \$998.0 million, and the state's net investment in capital assets is \$24.76 billion.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the state of Washington's basic financial statements, which include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The focus is on both the state as a whole (government-wide) and the major individual funds. The dual perspectives allow the reader to address relevant questions, broaden the basis for comparison (year-to-year or government-to-government), and enhance the state's accountability.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the state of Washington's finances, in a manner similar to a private sector business.

Statement of Net Position. The Statement of Net Position presents information on all of the state of Washington's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the state of Washington is improving or deteriorating.

Statement of Activities. The Statement of Activities presents information showing how the state's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The Statement of Activities is focused on both the gross and net cost of various activities (including governmental, business-type, and component unit). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.

Both of these government-wide financial statements distinguish functions of the state of Washington that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The governmental activities of the state of Washington include education, human services, transportation, natural resources, adult corrections, and general government.

The business-type activities of the state of Washington include the workers' compensation, unemployment compensation, and health insurance programs, and various higher education student services such as housing and dining.

FUND FINANCIAL STATEMENTS

A fund is a group of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The state of Washington, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the state can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on fund balances at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for three major funds and an aggregate total for all nonmajor funds. The state's major governmental funds are the General Fund, Higher Education Special Revenue Fund, and the Higher Education Endowment Fund. Individual fund data for the state's nonmajor governmental funds are provided in the form of combining statements elsewhere in this report.

Proprietary Funds. The state of Washington maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds represent an accounting device used to accumulate and allocate costs internally among the state of Washington's various functions. The state of Washington uses internal service funds to account for general services such as motor pool, data processing services, and risk management. Because internal service funds predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, but in greater detail. The proprietary fund financial statements provide separate information for the

Workers' Compensation Fund, Unemployment Compensation Fund, Higher Education Student Services Fund, and the Health Insurance Fund, which are considered to be major funds, as well as an aggregated total for all nonmajor enterprise funds.

The internal service funds are combined for presentation purposes. Individual fund data for the state's nonmajor proprietary funds are provided in the form of combining statements elsewhere in this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the state of Washington's own programs. Washington's fiduciary funds also include state administered pension plans. The accounting used for fiduciary funds is much like that used for proprietary funds. Individual fund data for the state's fiduciary funds are provided in the form of combining statements elsewhere in this report.

Component Units. Component units that are legally separate from the state and primarily serve or benefit those outside the state are discretely presented. They are either financially accountable to the state or have relationships with the state such that exclusion would cause the state's financial statements to be misleading or incomplete. The state discretely reports three major component units: the Valley Medical Center, the Washington State Public Stadium Authority, and the Health Benefit Exchange, as well as four nonmajor component units.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

OTHER INFORMATION

This report also presents required supplementary information on budgetary comparisons, pension plans and other postemployment benefits information, and infrastructure assets reported using the modified approach.

The combining statements referred to earlier are presented immediately following the required

STATE OF WASHINGTON
Statement of Net Position
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
ASSETS						
Current and other assets	\$ 39,044	\$ 34,275	\$ 30,252	\$ 30,017	\$ 69,296	\$ 64,292
Capital assets	43,541	42,829	3,416	3,428	46,957	46,257
Total assets	82,585	77,104	33,668	33,445	116,253	110,549
DEFERRED OUTFLOWS OF RESOURCES	2,184	2,025	421	308	2,605	2,333
LIABILITIES						
Current and other liabilities	8,713	8,305	1,355	1,256	10,068	9,561
Long-term liabilities outstanding	36,699	36,241	40,184	38,289	76,883	74,530
Total liabilities	45,412	44,546	41,539	39,545	86,951	84,091
DEFERRED INFLOWS OF RESOURCES	2,887	3,317	391	393	3,278	3,710
NET POSITION						
Net investment in capital assets	23,934	23,337	825	863	24,759	24,200
Restricted	14,862	11,757	2,405	3,572	17,267	15,329
Unrestricted	(2,326)	(3,828)	(11,071)	(10,620)	(13,397)	(14,448)
Total net position	<u>\$ 36,470</u>	<u>\$ 31,266</u>	<u>\$ (7,841)</u>	<u>\$ (6,185)</u>	<u>\$ 28,629</u>	<u>\$ 25,081</u>

Note: The 2020 amounts presented here have not been restated for prior period adjustments. Complete information necessary to fully restate the 2020 amounts was not available. Refer to Note 2 Accounting and Reporting Changes.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the state of Washington, total assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$28.63 billion at June 30, 2021, as compared to \$25.08 billion as reported at June 30, 2020.

The largest portion of the state's net position (86.5 percent for fiscal year 2021 as compared to 96.5 percent for fiscal year 2020) reflects its net investment in capital assets (e.g., land, buildings, equipment, and intangible assets) less any related debt used to acquire those assets that is still outstanding. The state of Washington uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the state of Washington's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the state of Washington's net position (60.3 percent for fiscal year 2021 as compared to 61.1 percent for fiscal year 2020) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$(13.40) billion represents unrestricted net position. The state's overall negative balance in unrestricted net position is due to deficits in business-type activities.

In governmental activities, net position increased from \$31.27 billion in fiscal year 2020 to \$36.47 billion in fiscal year 2021. The increase reflects increases in investment earnings, federal funding, and tax revenues that outpaced the increases in expenses.

In business-type activities, the deficit is caused by unemployment compensation paying out an unprecedented amount of unemployment claims due to COVID-19; in addition, claims expense continued to outpace associated premiums in both the health insurance program and the workers' compensation program that provides time-loss, medical, disability, and pension payments to qualifying individuals who sustain work-related injuries or develop occupational diseases as a result of their required work activities. The main benefit plans of the workers' compensation program are funded

on rates that will keep the plans solvent in accordance with recognized actuarial principles

support for governmental activities comes from taxes and intergovernmental grants, while business-type activities are supported primarily through user charges.

As previously mentioned, the state's activities are divided between governmental and business-type. The majority of

STATE OF WASHINGTON						
Changes in Net Position						
<i>(in millions of dollars)</i>						
	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
REVENUES						
Program revenues:						
Charges for services	\$ 7,649	\$ 6,704	\$ 12,304	\$ 11,502	\$ 19,953	\$ 18,206
Operating grants and contributions	24,930	18,495	9,529	4,814	34,459	23,309
Capital grants and contributions	648	819	1	—	649	819
General revenues:						
Taxes	30,334	27,535	17	20	30,351	27,555
Interest and investment earnings (loss)	1,541	507	1,640	2,128	3,181	2,635
Total revenues	<u>65,102</u>	<u>54,060</u>	<u>23,491</u>	<u>18,464</u>	<u>88,593</u>	<u>72,524</u>
EXPENSES						
General government	(3,769)	(2,143)	—	—	(3,769)	(2,143)
Education - K-12	(15,322)	(14,715)	—	—	(15,322)	(14,715)
Education - Higher education	(8,472)	(8,303)	—	—	(8,472)	(8,303)
Human services	(25,818)	(21,633)	—	—	(25,818)	(21,633)
Adult corrections	(1,247)	(1,264)	—	—	(1,247)	(1,264)
Natural resources and recreation	(1,540)	(1,384)	—	—	(1,540)	(1,384)
Transportation	(2,757)	(2,701)	—	—	(2,757)	(2,701)
Interest on long-term debt	(1,073)	(1,063)	—	—	(1,073)	(1,063)
Workers' compensation	—	—	(4,505)	(6,387)	(4,505)	(6,387)
Unemployment compensation	—	—	(11,939)	(7,494)	(11,939)	(7,494)
Higher education student services	—	—	(3,166)	(3,431)	(3,166)	(3,431)
Health insurance	—	—	(3,556)	(2,457)	(3,556)	(2,457)
Other business-type activities	—	—	(1,851)	(1,266)	(1,851)	(1,266)
Total expenses	<u>(59,998)</u>	<u>(53,206)</u>	<u>(25,017)</u>	<u>(21,035)</u>	<u>(85,015)</u>	<u>(74,241)</u>
Excess (deficiency) of revenues over expenses before contributions						
to endowments and transfers	5,104	854	(1,526)	(2,571)	3,578	(1,717)
Contributions to endowments	75	82	—	—	75	82
Transfers	132	205	(130)	(201)	2	4
Increase (decrease) in net position	<u>5,311</u>	<u>1,141</u>	<u>(1,656)</u>	<u>(2,772)</u>	<u>3,655</u>	<u>(1,631)</u>
Net position - July 1, as restated	<u>31,159</u>	<u>30,125</u>	<u>(6,185)</u>	<u>(3,413)</u>	<u>24,974</u>	<u>26,712</u>
Net position - June 30	<u>\$ 36,470</u>	<u>\$ 31,266</u>	<u>\$ (7,841)</u>	<u>\$ (6,185)</u>	<u>\$ 28,629</u>	<u>\$ 25,081</u>

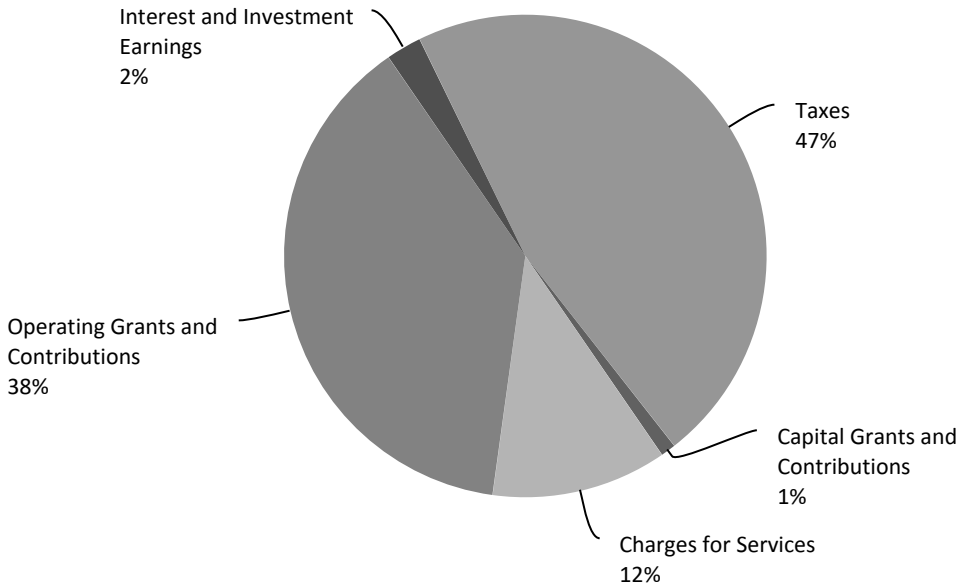
Governmental Activities. Governmental activities resulted in an increase in the state of Washington's net position of \$5.31 billion. A number of factors were in play including increases in tax revenues and federal grants greater than spending increases on K-12 education and human services.

- Tax revenues increased by \$2.80 billion in fiscal year 2021 as compared to fiscal year 2020 reflecting continuing strength in the property values and real estate sales. Sales and use tax, which are the main tax revenue for governmental activities, reported an increase of \$1.51 billion. Business and occupation tax increased by \$666.6 million. Property tax revenue increased by \$225.1 million as property values continue to rise. Revenue from real estate excise taxes, levied on the sale of real estate, increased by \$684.2 million.
- Operating grants and contributions grew by \$6.43 billion in fiscal year 2021 compared with 2020. The majority of this increase was federal stimulus funds received in response to COVID-19, and this was matched with an increase in human services operating grant expenses as the state continued its response to the COVID-19 crisis. As of June 30, 2021, \$2.88 billion in federal stimulus funds received from the U.S. Department of the Treasury remained unspent and is classified as unearned revenue.
- Expenses grew by \$606.9 million for K-12 education in 2021 as compared to fiscal year 2020. This reflects the state's ongoing commitment to meet the needs of K-12 education.

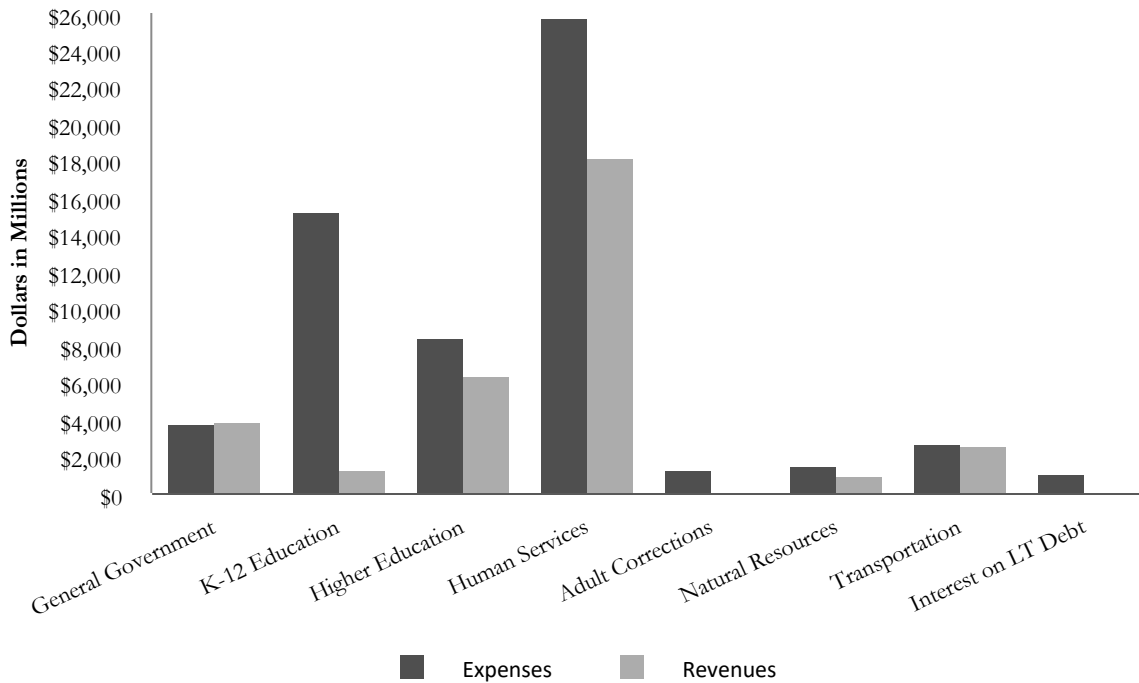
Business-Type Activities. Business-type activities decreased the state of Washington's net position by \$1.66 billion. Key factors contributing to the operating results of business-type activities are:

- The workers' compensation activity decrease in net position in fiscal year 2021 was \$802.8 million compared to a decrease of \$1.83 billion in fiscal year 2020. Premiums and assessments revenue decreased \$309.0 million in fiscal year 2021 as compared with fiscal year 2020 mostly as a result of the decrease in the average premium rates. Claim costs decreased by \$1.79 billion in fiscal year 2021 as compared with fiscal year 2020. This decrease is largely the result of actuarial assumption changes in the Supplemental Pension Fund in the prior year, which caused an increase in the fiscal year 2020 expense. Investment income decreased by \$533.9 million as compared to fiscal year 2020. The workers' compensation portfolio is 80.8 percent debt securities.
- The unemployment compensation activity reported an operating loss in fiscal year 2021 of \$1.30 billion compared to an operating loss of \$1.61 billion in fiscal year 2020. Unemployment insurance benefits increased by \$4.44 billion in fiscal year 2021 over fiscal year 2020 due to an increase in unemployment caused by COVID-19. The unemployment rate for the state for June 2021 was 5.2 percent, a substantial decrease from the 9.8 percent unemployment rate for June 2020.
- The Higher Education Student Services activities reported relatively proportional increases in both operating revenues and expenses when compared to the prior year.
- The Health Insurance activity reported premiums collected of \$3.56 billion in fiscal year 2021 compared to \$2.59 billion in fiscal year 2020. This is the first full fiscal year of operation for this fund with all school employees included.

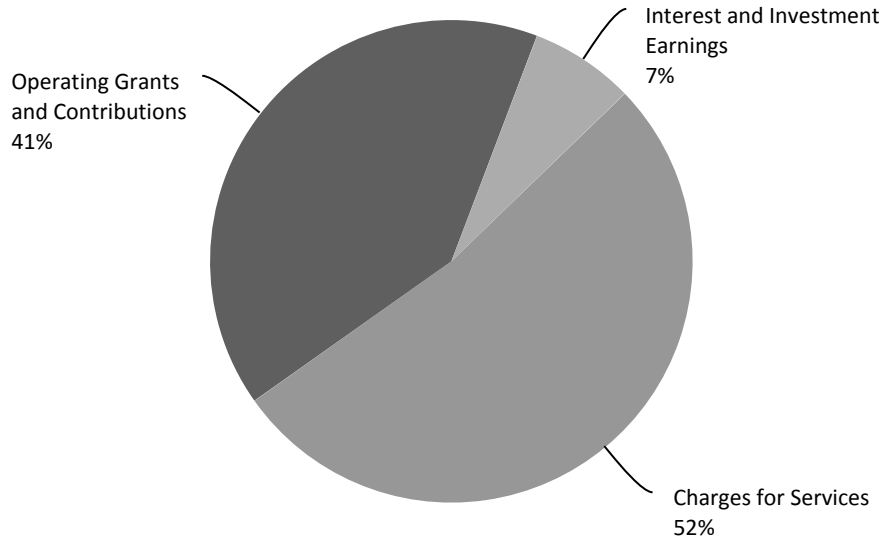
Revenues by Source: Governmental Activities



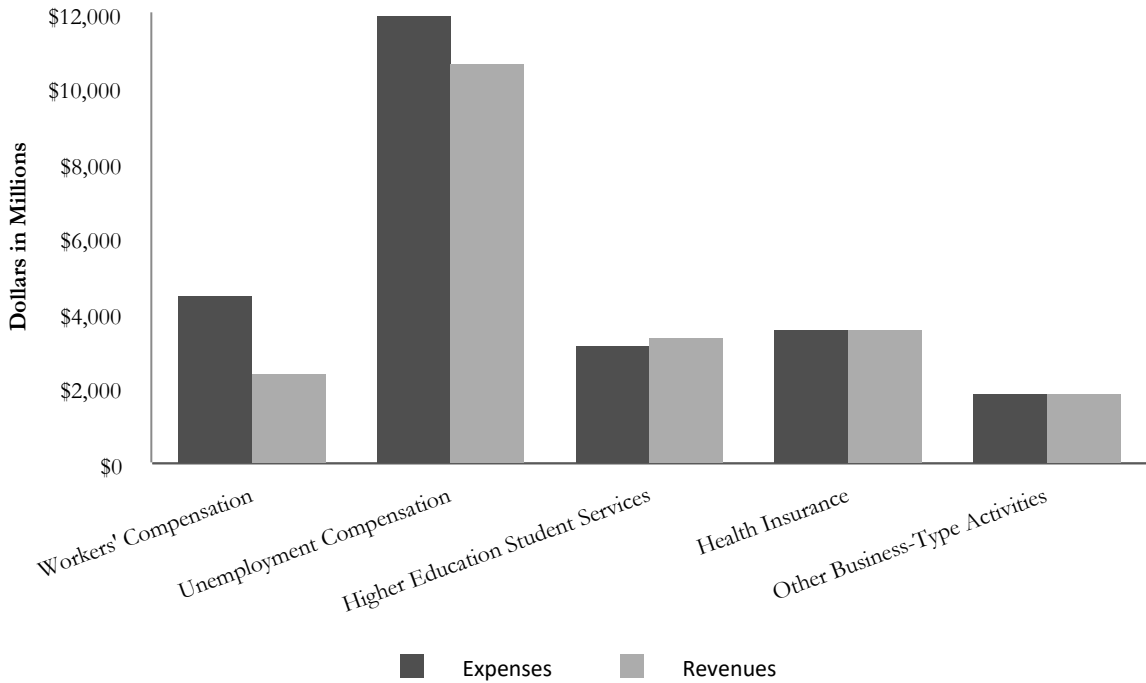
Program Revenues and Expenses: Governmental Activities



Revenues by Source: Business-Type Activities



Program Revenues and Expenses: Business-Type Activities



Financial Analysis of the State's Funds

As noted earlier, the state of Washington uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. As previously discussed, the focus of the state of Washington's governmental funds is to provide information on near-term inflows, outflows, and fund balances. Such information is useful in assessing the state of Washington's financing requirements.

Fund Balances. At June 30, 2021, the state's governmental funds reported combined ending fund balances of \$24.15 billion. Of this amount, \$3.50 billion or 14.5 percent is nonspendable, either due to its form or legal constraints; and \$8.99 billion or 37.2 percent is restricted for specific programs by external constraints, constitutional provisions, or contractual obligations. An additional \$9.01 billion or 37.3 percent of total fund

balance has been committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the Legislature. An additional \$2.03 billion or 8.4 percent of total fund balance has been assigned to specific purposes by management. The unassigned portion of the governmental fund balance is \$628.70 million or 2.6 percent of total fund balance and can be used at the state's discretion.

The General Fund is the chief operating fund of the state of Washington. The fund balance increased by \$2.23 billion in fiscal year 2021, as compared to a \$70.0 million decrease in fiscal year 2020. Increased revenues from taxes and federal aid and spending increases in K-12 education and health services, caused by the COVID-19 response, were the key contributing factors. Assigned fund balance of \$1.92 billion is reported for fiscal year 2021 and relates to certain accrued and non-cash revenues which are not considered by management to be available for budgetary purposes.

STATE OF WASHINGTON			
General Fund			
<i>(in millions of dollars)</i>			
	Fiscal Year		Difference Increase (Decrease) 2021 - 2020
	2021	2020	
REVENUES			
Taxes	\$ 26,403	\$ 23,496	\$ 2,907
Federal grants	19,735	14,512	5,223
Investment revenue (loss)	(13)	114	(127)
Other	1,215	855	360
Total	<u>47,340</u>	<u>38,977</u>	<u>8,363</u>
EXPENDITURES			
Human services	25,814	21,366	4,448
Education	15,573	15,090	483
Other	3,165	1,859	1,306
Total	<u>44,552</u>	<u>38,315</u>	<u>6,237</u>
Net transfers in (out)	(643)	(838)	195
Other financing sources	83	106	(23)
Net increase (decrease) in fund balance	<u>\$ 2,228</u>	<u>\$ (70)</u>	<u>\$ 2,298</u>

General Fund expenditures continue to be concentrated in services and programs most vital to citizens – primarily human services and public education.

In addition to the General Fund, the state reports the Higher Education Special Revenue and the Higher Education Endowment Funds as major governmental funds. Significant changes in these funds are as follows:

- The change in fund balance of the Higher Education Special Revenue Fund in fiscal year 2021 was an increase of \$226.9 million compared to an increase of \$31.3 million in fiscal year 2020. The increase can be contributed to increased federal grants.
- The fund balance for the Higher Education Endowment Fund increased by \$1.36 billion in fiscal year 2021. The increase is a result of positive growth in investment earnings.

Proprietary Funds. The state of Washington's proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Significant changes reported in fiscal year 2021 are as follows:

- The Workers' Compensation Fund reported a decrease in net position of \$802.8 million in fiscal year 2021. Operating revenues decreased by \$320.4 million and operating expenses decreased by \$1.88 billion as compared to fiscal year 2020. As previously stated, premiums and assessments revenue decreased \$309.0 million in fiscal year 2021 as compared with fiscal year 2020 mostly as a result of the decrease in the average premium rates. Claim costs decreased by \$1.79 billion in fiscal year 2021 as compared with fiscal year 2020. This decrease is largely the result of actuarial assumption changes in the Supplemental Pension Fund in the prior year, which caused an increase in the fiscal year 2020 expense. Investment income decreased \$533.9 million over fiscal year 2020.
- Washington's Unemployment Compensation Fund reported a decrease in net position of \$1.17 billion. While unemployment benefit claims expense increased by \$4.44 billion in fiscal year 2021 as compared to 2020, unemployment premiums and assessments decreased by \$24.8 million and federal aid increased by \$4.79 billion in fiscal year 2021 as compared to 2020. As previously stated, unemployment insurance benefits and federal aid continued to increase due to an increase in unemployment caused by COVID-19.
- The Higher Education Student Services Fund reported consistent activity when compared to the prior year.
- The Health Insurance Fund reported a decrease in net position of \$ 27.0 million in fiscal year 2021. Operating revenues increased by \$963.3 million while operating expenses increased by \$1.10 billion as compared to fiscal year 2020.

General Fund Budgetary Highlights

Differences between the original budget of the General Fund and the final amended budget reflect increases in mandatory costs driven by rising caseloads and school enrollment as well as other high priority needs. Changes to estimates are summarized as follows:

- Estimated biennial resources increased by \$8.08 billion over the course of the fiscal year. The major increase

in estimated resources is additional sales tax and federal grants-in-aid.

- Appropriated expenditure authority increased by \$7.93 billion over the course of the fiscal year to address increases in the state's health program's and general government agencies' continued response to COVID-19.

The state did not overspend its legal spending authority for the 2019-21 biennium. Actual General Fund revenues and expenditures were 95.7 and 93.0 percent of final budgeted resources and appropriations, respectively, for the 2019-21 biennium.

Capital Assets, Infrastructure, and Bond Debt Administration

Capital Assets. The state of Washington's investment in capital assets for its governmental and business-type activities as of June 30, 2021, totaled \$46.96 billion (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, museum and historical collections, buildings and other improvements, furnishings, equipment, and intangible assets, as well as construction in progress.

Washington's fiscal year 2021 investment in capital assets, net of current year depreciation, increased \$699.8 million over fiscal year 2020, including increases to the state's transportation infrastructure of \$474.9 million. The state's construction in progress includes both new construction and major improvements to state capital facilities and infrastructure. Remaining commitments on these construction projects total \$5.09 billion.

Additional information on the state of Washington's capital assets can be found in Note 6.

Infrastructure. The state of Washington uses the modified approach for reporting selected infrastructure assets. The modified approach requires that the state meet certain requirements regarding the inventory and maintenance of eligible capital assets, including condition assessments. Under the modified approach, assets are not depreciated and certain maintenance and preservation costs associated with those assets are expensed. In fiscal year 2021, assets accounted for under this approach include approximately 20,876 pavement lane miles, 3,956 bridges and tunnels, and 47 highway safety rest areas. The total count of bridges includes vehicular bridges of all lengths and pedestrian bridges. Infrastructure asset categories are predominantly assessed on a two-year cycle, either on a calendar year or fiscal year basis.

STATE OF WASHINGTON
Capital Assets - Net of Depreciation
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 2,933	\$ 2,896	\$ 75	\$ 74	\$ 3,008	\$ 2,970
Transportation infrastructure and other assets not depreciated	26,769	26,292	5	5	26,774	26,297
Buildings	8,893	8,626	2,815	2,888	11,708	11,514
Furnishings, equipment, and intangible assets	2,124	2,167	107	133	2,231	2,300
Other improvements and infrastructure	1,332	1,317	107	79	1,439	1,396
Construction in progress	1,490	1,531	307	249	1,797	1,780
Total	\$ 43,541	\$ 42,829	\$ 3,416	\$ 3,428	\$ 46,957	\$ 46,257

The state of Washington's goal is to maintain 85 percent of pavements and 90 percent of bridges at a condition level of fair or better. The condition of these assets, along with the rating scales, and additional detail comparing planned to actual preservation and maintenance spending are available in the required supplementary information. In 2018, the Washington State Department of Transportation updated its Capital Assets - Infrastructure Policy to report the average of the three most recent assessment periods, as opposed to just the most recent period.

The most recent pavements condition assessment indicates that 94.1 percent of pavements were in fair or better condition. The condition of pavements has remained steady in the last three assessment periods, averaging 93.5 percent in fair or better condition. For fiscal year 2021, actual maintenance and preservation expenditures were 41.2 percent lower than planned. The significant variance is partly due to an additional appropriation for the Connecting Washington Program that funded other various projects to enhance the statewide transportation system and maintain critical infrastructure. Over the past five fiscal years, the actual expenditures for maintaining and preserving pavements were 8.5 percent lower than planned.

The most recent condition assessment of bridges over 20 feet in length indicates that 93.8 percent of bridges were in good or fair condition. The condition of bridges has remained steady over the last three assessment periods, averaging 92.8 percent in good or fair condition. For fiscal year 2021, the actual maintenance and preservation expenditures were 5.0 percent lower than planned, and over the past five fiscal years, the actual expenditures were 14.9 percent lower than planned.

Bond Debt. At the end of fiscal year 2021, the state of Washington had general obligation bond debt outstanding including accreted interest and issuance

premiums of \$20.73 billion, an increase of 2.9 percent from fiscal year 2020. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized \$15.77 billion general obligation debt that remains unissued.

General obligation debt is subject to the limitation prescribed by the state Constitution. The aggregate debt contracted by the state as of June 30, 2021, does not exceed that amount for which payments of principal and interest in any fiscal year would require the state to expend more than 8.25 percent of the arithmetic mean of its general state revenues for the six immediately preceding fiscal years. The arithmetic mean of its general state revenues for fiscal years 2015-2020 is \$20.61 billion. The debt service limitation, 8.25 percent of this mean, is \$1.70 billion. The state's maximum annual debt service as of June 30, 2021, subject to the constitutional debt limitation is \$1.26 billion, or \$443.0 million less than the debt service limitation.

For further information on the debt limit, refer to Schedule 11 in the statistical section of this report or the Report on the State of Washington's Debt Limitation, available from the Office of the State Treasurer at <https://www.tre.wa.gov/wp-content/uploads/Debt-Limit-Certification-2021-Final-web.pdf>.

By statutory provision, the State Finance Committee (SFC) is authorized to supervise and control the issuance of all state bonds, notes, or other evidences of indebtedness. The SFC is composed of the Governor, Lieutenant Governor, and State Treasurer, the latter serving as chairperson.

As of June 30, 2021, the state of Washington's general obligation debt was rated Aaa by Moody's Investor Service, AA+ by Standard & Poor's Rating Group, and AA+ by Fitch Ratings.

STATE OF WASHINGTON

Bond Debt

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
General obligation (GO) bonds	\$ 20,402	\$ 19,794	\$ —	\$ —	\$ 20,402	\$ 19,794
Accreted interest on zero interest rate GO bonds	328	359	—	—	328	359
Revenue bonds	1,889	2,033	2,293	2,235	4,182	4,268
Unamortized premium on bonds sold	2,637	2,132	182	180	2,819	2,312
Total	<u>\$ 25,256</u>	<u>\$ 24,318</u>	<u>\$ 2,475</u>	<u>\$ 2,415</u>	<u>\$ 27,731</u>	<u>\$ 26,733</u>

The state had revenue debt outstanding at June 30, 2021, of \$4.18 billion, a decrease of \$86.0 million compared to fiscal year 2020. The decrease is primarily related to the state colleges and universities not issuing as many revenue bonds as in prior years. This debt is not supported or intended to be supported by the full faith and credit of the state. Revenue bond debt is generally secured by specific sources of revenue. The exceptions are the University of Washington and Washington State University which issue general revenue bonds that are payable from general revenues of each university.

General obligation and revenue bonds totaling \$1.42 billion were refunded during the year. Washington's refunding activity produced \$321.0 million in gross debt service savings.

Additional information on the state's bond debt obligations is presented in Note 7.

Conditions with Expected Future Impact

Economic Outlook. Washington, has weathered the COVID-19 storm better than many states. The state's aerospace industry has continued to struggle with the decrease in demand for air transportation, while the knowledge-based industries including information technology, health, business, and financial services has fared better. Washington's strong housing market and continued sales have had a positive effect on revenue growth. The increasing vaccination rate in Washington state should reduce the possibility of further loss of jobs. As long as the COVID-19 infection rate remains under control, the economy should continue to grow at a modest pace.

Rainy Day Account. In November 2007, Washington state voters ratified Engrossed Substitute Senate Joint Resolution 8206, amending the Washington Constitution and establishing the Budget Stabilization Account (BSA). The state's Constitution details a limited number of circumstances under which funds can be appropriated from the BSA, one of which is a favorable vote of at least three-fifths of the members of each house of the Legislature.

On June 30, 2021, \$269.5 million was transferred to the BSA from the General Fund in accordance with the provisions of the Constitution. During fiscal year 2021, the Legislature appropriated \$164.2 million from the BSA for additional state expenditures, COVID-19 emergency services, emergency fire service mobilization, fire suppression, and fire damage recovery costs. The legislature additionally transferred \$1.82 billion from the rainy day account to the General Fund to fund the increase in human services expenditures. The BSA had a fund balance of \$19.2 million as of June 30, 2021.

Requests for Information

This financial report is designed to provide a general overview of the state of Washington's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Financial Management, Accounting Division, P.O. Box 43127, Olympia, WA 98504-3127.