Office of the Washington State Auditor

Pat McCarthy

A look at how Washington managed public money in 2022

Annual Comprehensive Financial Report summary

Each year, as required by law, the state publishes its Annual Comprehensive Financial Report (ACFR) to provide information on the state's financial position. The ACFR is a complex and lengthy document (348 pages) with detailed information on the state's structure, services, finances, trends and nonfinancial data. In short, the ACFR shows how the state manages the public money entrusted to it by Washington residents.

Our audit of the fiscal year 2022 ACFR resulted in a clean audit opinion, meaning we concluded the financial statements fairly presented the state's financial position. The full report is available on the state's Office of Financial Management website.

To make this important information accessible to the broadest possible audience, the State Auditor's Office prepares this ACFR summary to provide a snapshot of the state's financial position. Keep scrolling for more details, including:

- A year-to-year summary of the state's revenues and expenses
- Significant decreases in unemployment insurance claims and federal aid
- Changes in the workers' compensation program, including a worsening deficit
- A snapshot of the financial health of state-sponsored pension plans
- Issues relating to financial reporting at two state agencies that resulted in several uncorrected errors on the financial statements

*State revenue vs. expenses

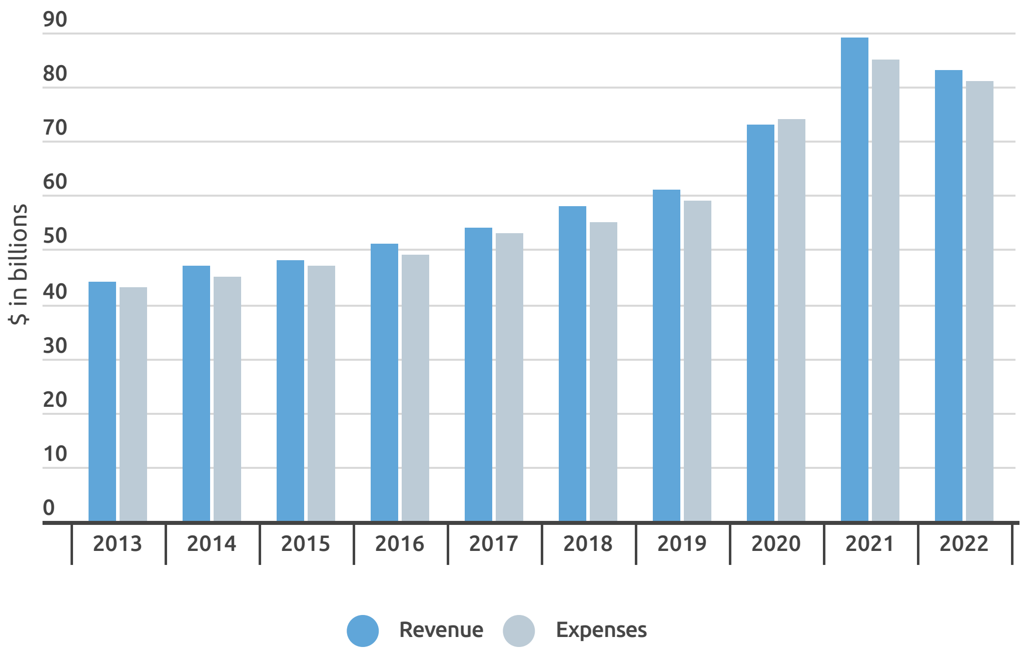
$83 billion

Revenue in 2022

$81 billion

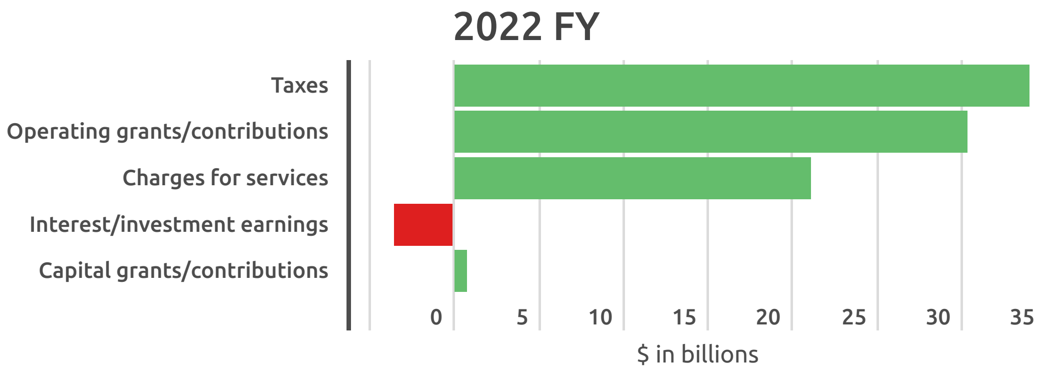
Expenses in 2022

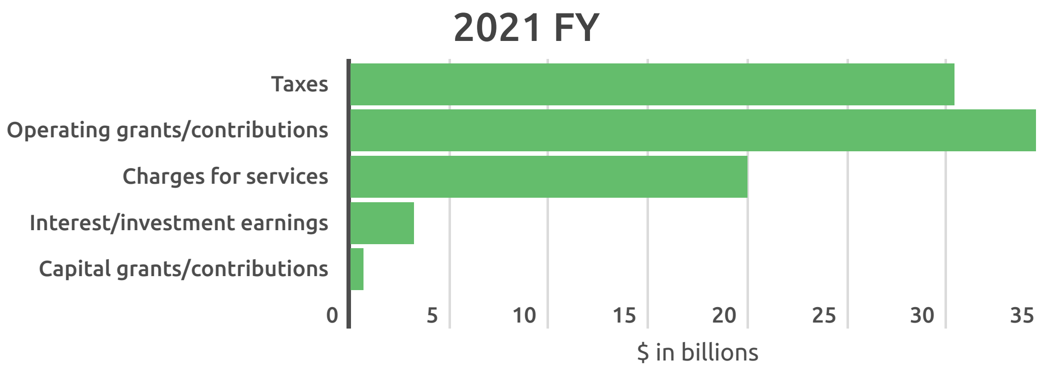
Revenue and expenses over time

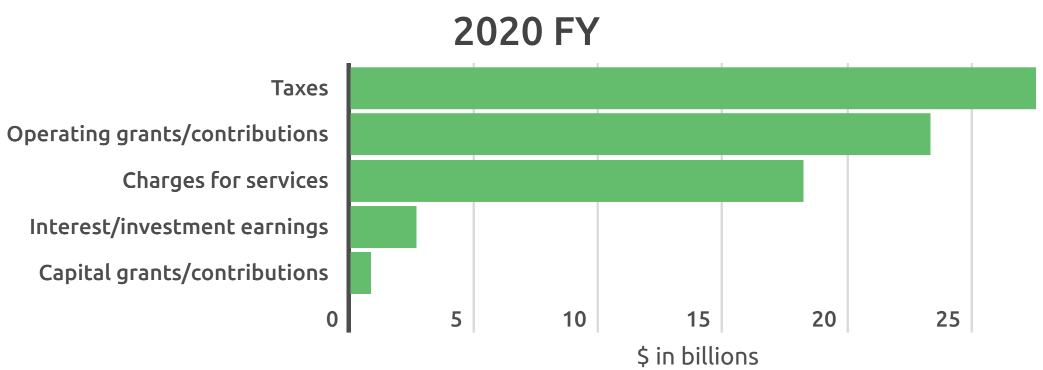


** Excludes fiduciary activities, which are when a government takes care of money that belongs to people or other parties outside of the government itself*

*State revenue by source







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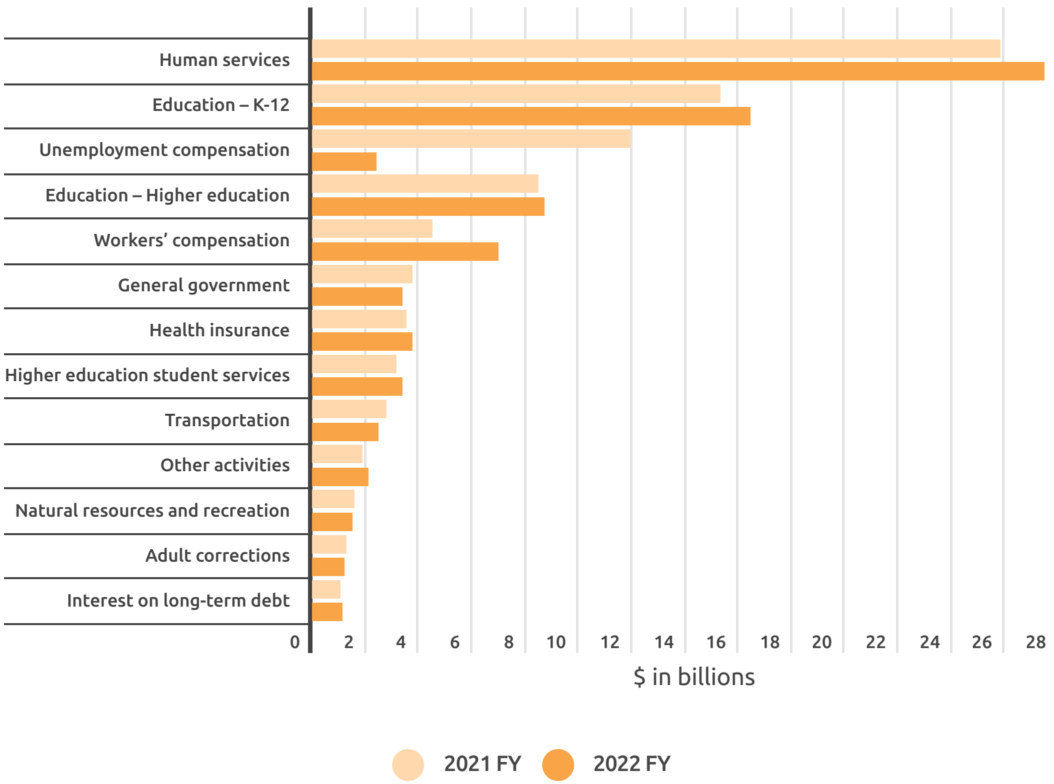
Operating Grants and contributions

Much of the decrease in operating grants and contributions was attributable to reduced federal pandemic unemployment assistance as the job market returned to normal levels.

$30.03 billion

Fell by $4.13 billion (or 12%) in fiscal year 2022 compared to fiscal year 2021.

*State expenses by program area



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Employment Security Department: Unemployment compensation system

Under Washington's unemployment insurance program, employers with a history of more layoffs generally pay a higher unemployment tax rate.

$2.877 billion

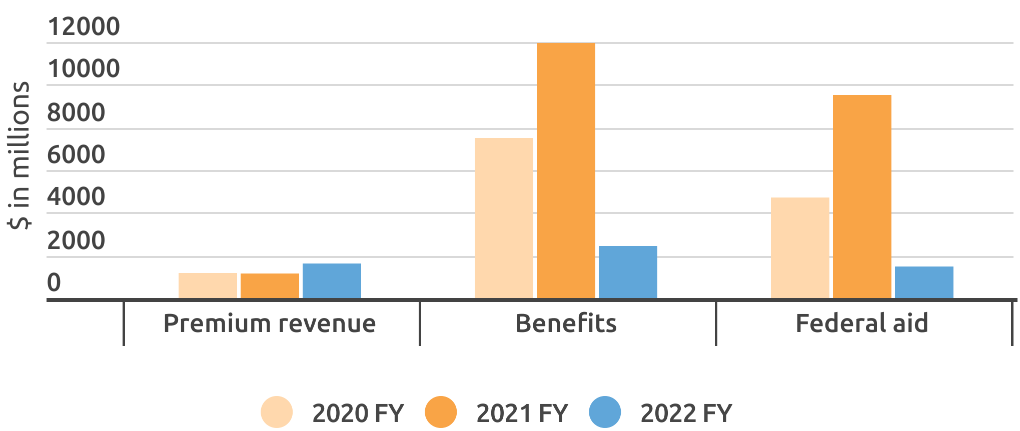
The state's trust fund cash balance, as of June 30, 2022, increased 43.6% from last year's balance of $2.003 billion. The balance decreased in 2020 and 2021 due to increased pandemic-related claims. The state's trust fund cash balance is still one of the nation's largest, which ensures the state will be able to pay benefits claims.

3.9%

The June 2022 unemployment rate fell from the 2021 rate of 5.2% unemployment as the economy recovered after layoffs associated with the COVID-19 pandemic.

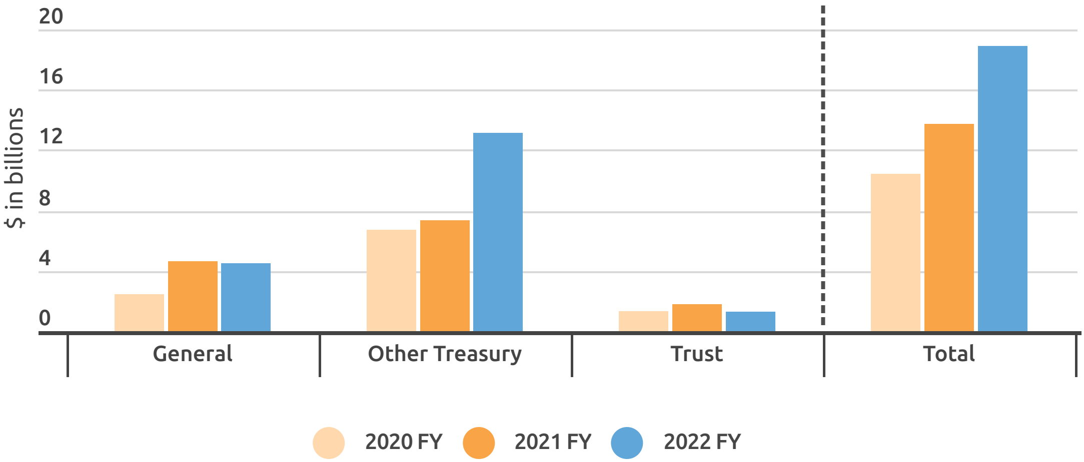
The pandemic and the implementation of the Coronavirus Aid, Relief and Economic Security Act caused unemployment insurance benefits to soar in both fiscal years 2020 and 2021. In fiscal year 2022, employment returned to pre-pandemic levels, which corresponded to a reduction in benefits paid and federal aid received.

Changes in revenue, benefits and federal aid



Treasurer's ending balances by fund type

Due to unspent federal money, the state's ending fund balances were higher in fiscal year 2022. These balances rolled over into fiscal year 2023, but there are constraints on how the state can use the funds.



Debt burden

According to Fitch Ratings, Washington's combined burden of debt, including pensions, is low as a percentage of personal income but above the median for U.S. states.

$21.0 billion

State’s total general obligation debt (up 1.41% from June 30, 2021).

$3,905

Debt the state owes for every adult and child who resides in Washington. This is a 5.9% increase compared to 2021.

5.5%

Ratio of total debt to personal income.

Debt limit

The state constitution limits how much money the state can spend when repaying certain forms* of debt. That limit right now is 8.25% of the average amount of general state revenue from the previous six fiscal years. In other words, the state can't pay more than 8.25% of its averaged general revenues on debt payments, including principal and interest.

This has the effect of limiting the amount of money the state can borrow in certain conditions. And because it's a percentage of general revenue, the actual dollar amount of the limit fluctuates with the rise and fall of revenue.

Each fiscal year, the State Treasurer calculates the state's debt limit, as well as how close the state is to hitting it.

$1.991 billion

Constitutional limit on debt service as of December 1, 2022.

$604.7 million

Estimated amount under the limit as of December 1, 2022.

** Debt approved by voters and the Legislature is excluded from the debt limit calculations.*

Bond ratings

Bond ratings are an important measure of the state's economic strength and accountability. They determine how much interest the state pays when it borrows money. Washington is considered to have good bond ratings.

Aaa

Moody's Investors Service

This is the second highest rating Moody's offers. The ratings, from highest to lowest, go Aaa-Aa-A-Baa-Ba-B-Caa-Ca-C. The numbers 1, 2 or 3 indicate the higher, middle or lower end of the ranking, respectively.

AA+

Standard & Poor's Ratings Services

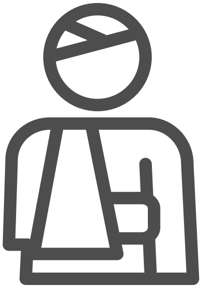
This is the second highest rating Standard & Poor's offers. The ratings, from highest to lowest, go AAA-AA-A-BBB-BB-B-CCC-CC-C-D. A plus or minus sign indicates relative standing (better or worse, respectively) in a category.

AA+

Fitch Ratings

This is the second highest rating Fitch offers. The ratings, from highest to lowest, go AAA-AA-A-BBB-BB-B-CCC-CC-C--RD-D. A plus or minus sign indicates relative standing (better or worse, respectively) in a category.

Workers' compensation program



Washington's workers' compensation program provides medical, time-loss, disability, and pension benefits payments to qualifying people sustaining work-related injuries or illnesses.

$19.58 billion

Program's deficit at end of fiscal year 2022, an increase of $6.71 billion compared to fiscal year 2021.

The worsening deficit was caused mainly by increasing claims costs attributable to a larger number of time-loss claims and annual cost-of-living adjustments (COLAs) on workers' compensation claims.

$38.70 billion

Liability for future claims and claims-adjustment (as of June 30, 2022). This includes liability for future supplemental pension COLAs.

$23 billion

Liability just for future supplemental pension COLAs. These COLAs are provided to injured workers and their dependents who receive disability payments.

By law, the state can only collect enough revenue to fund current COLA payments—it cannot set aside money to pay for future COLAs. **This is a key part of the program's deficit**, and it may require future premium increases or revamped benefits.

State pension plans

Collectively, the pension plans the state administers are relatively healthy. However, the state has not set aside enough money to fully fund promised retirement benefits to retired state employees in the closed pension plan PERS1. This situation was primarily caused by a period of underfunding, retroactive benefit enhancement and investment losses.

For all state-run pension plans, Pew's Charitable Trust's latest analysis shows Washington as having the 5th best funded ratio in the nation.

95.1%

Funded percentage of Washington's pension plans (as of June 30, 2020). The median rate for all states was 69.5%.

529 million

Unfunded liability for PERS1 pension plan (as of June 30, 2021). Compared to 2019, the unfunded liability decreased 65%.

Postemployment benefits

The state administers a postemployment benefit plan of subsidized medical, dental, life and long-term disability insurance to employees who elect to continue coverage and pay the administratively established premiums at the time they retire. The plan operates on a pay-as-you-go basis and does not accumulate resources for future payments.

$6.5 billion

Unfunded liability (as of June 30, 2021, the most recent actuarial valuation available).

Risk Management Fund

$1.56 billion

Estimated future claims against the state.

The Risk Management Fund pays tort claims, judgments and settlements against the state. As of June 30, 2022, the state has not set aside any cash and investments to pay for future estimated claims totaling $1.56 billion. State law limits accumulating funds in the Self-Insurance Liability Program to 50% of total outstanding and actuarially determined claims.

'Rainy day fund' balance

The state's Budget Stabilization Account ("rainy day fund") is available for use in the event of emergencies or by vote of the Legislature.

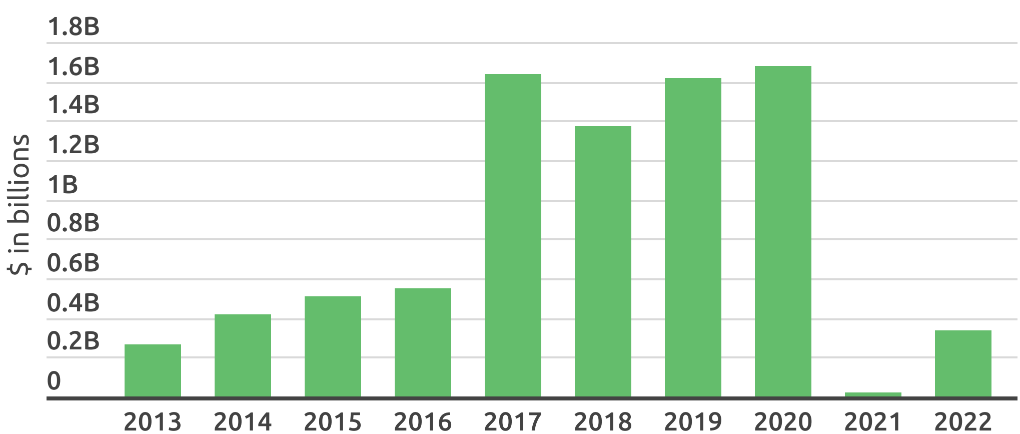
In fiscal year 2021, the Legislature transferred nearly all of the rainy day fund to the general fund to pay for increased human services expenditures associated with the COVID-19 pandemic. In 2022, the state started to replenish the fund with a $300.2 million transfer from the general fund.

The National Association of State Budget Officers shows that Washington had one of the smallest rainy day funds in the nation as June 30, 2022.

$335 million

Rainy day fund balance as of June 30, 2022.

Rainy day fund balance over time



Audit finding: Financial reporting

Our audit found a weakness in internal controls over financial reporting at two state agencies: **Employment Security Department** and the **State Board for Community and Technical Colleges**. These deficiencies resulted in errors on the financial statements—many of which the agencies did not correct.

Employment Security Department

The Department did not consistently collect overpayments of Pandemic Unemployment Assistance, did not report some unemployment benefits in the correct period, did not completely reconcile its bank accounts to accounting records at fiscal year-end, and incorrectly calculated the allowance for doubtful receivables related to claimant overpayments.

The Department corrected some of the errors on the financial statements resulting from these issues, but did not correct the following:

$87.9 million

Overstatement of cash balance because of exclusions from the bank reconciliations and other errors.

$55 million

Claims flagged for further review that were not accrued and reported in fiscal year 2022.

$26.4 million

Understatement of net receivables because of the miscalculated allowance for doubtful receivables.

$7.7 million

Unassessed overpayments that should have been reported as accounts receivable.

State Board for Community and Technical Colleges

The Board did not complete a timely and accurate reconciliation between the state’s accounting system and college financial data before the state closed its books. This is an issue we've reported in the prior five audits.

This issue resulted in several unexplained variances between consolidated college financial data and amounts listed in the state's accounting system. The Board did not correct any of following errors in the financial statements:

$482 million

Total variances in governmental activities funds. The state's accounting system had lower balances than consolidated financial data.

$228 million

Total variances in higher education special revenue funds. The state's accounting system had higher balances than consolidated financial data.

$7 million

Variance in cash reported in the higher education student services funds. The state's accounting system reported more cash than consolidated financial data.

$3 million

Variance in cash. The state's accounting system reported lower cash than consolidated financial data.