



Office of the Washington State Auditor

Pat McCarthy

A look at how Washington manages public money

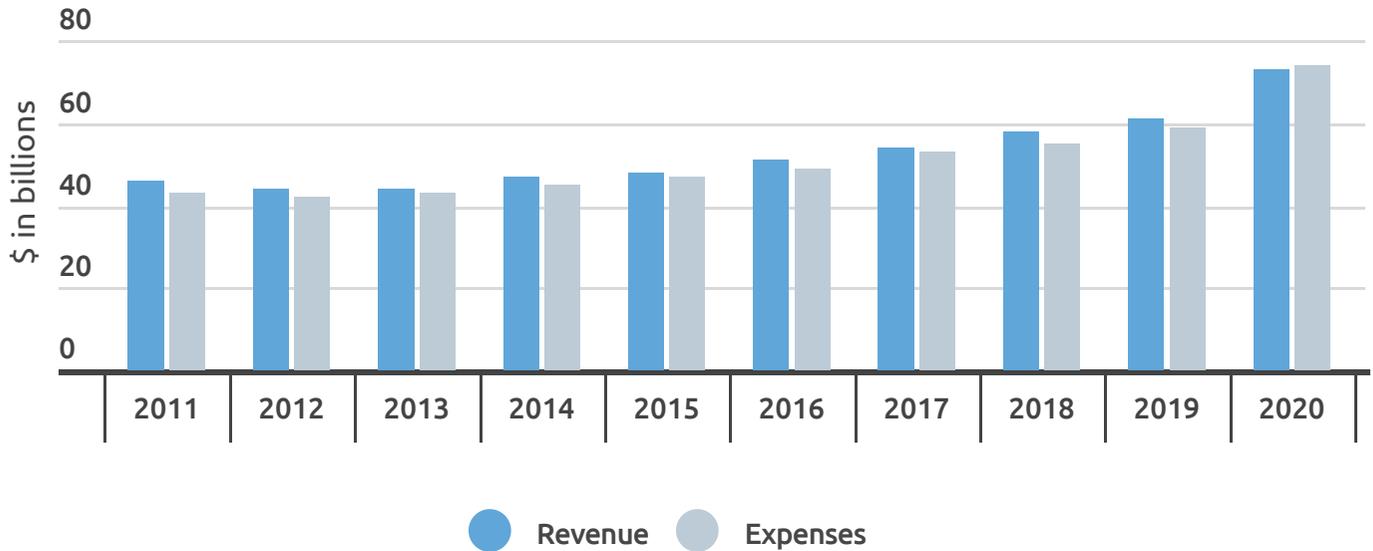
2020 Comprehensive Annual Financial Report summary

Each year, as required by law, the state publishes its Comprehensive Annual Financial Report (CAFR) to provide information on the state's financial position. The CAFR is a complex and lengthy document (324 pages) with detailed information on the state's structure, services, finances, trends and nonfinancial data. In short, the CAFR shows how the state manages the public money entrusted to it by Washington residents.

To make this important information accessible to the broadest possible audience, the State Auditor's Office prepares this CAFR summary to provide a snapshot of the state's financial position, including revenues and expenditures, cash balances and debt.

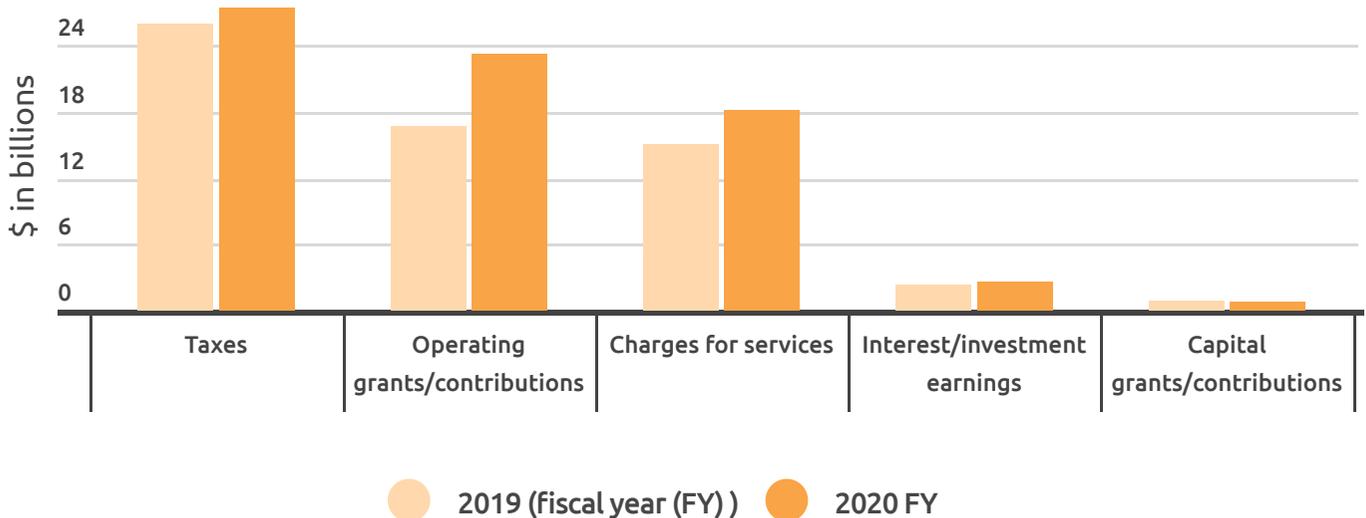
Our audit of the fiscal year 2020 CAFR resulted in a clean audit opinion, meaning we concluded the financial statements fairly presented the state's financial position. Despite delays associated with the COVID-19 pandemic, we were able to issue this opinion before our statutory deadline. The full report is available on

*State revenue vs. expenses



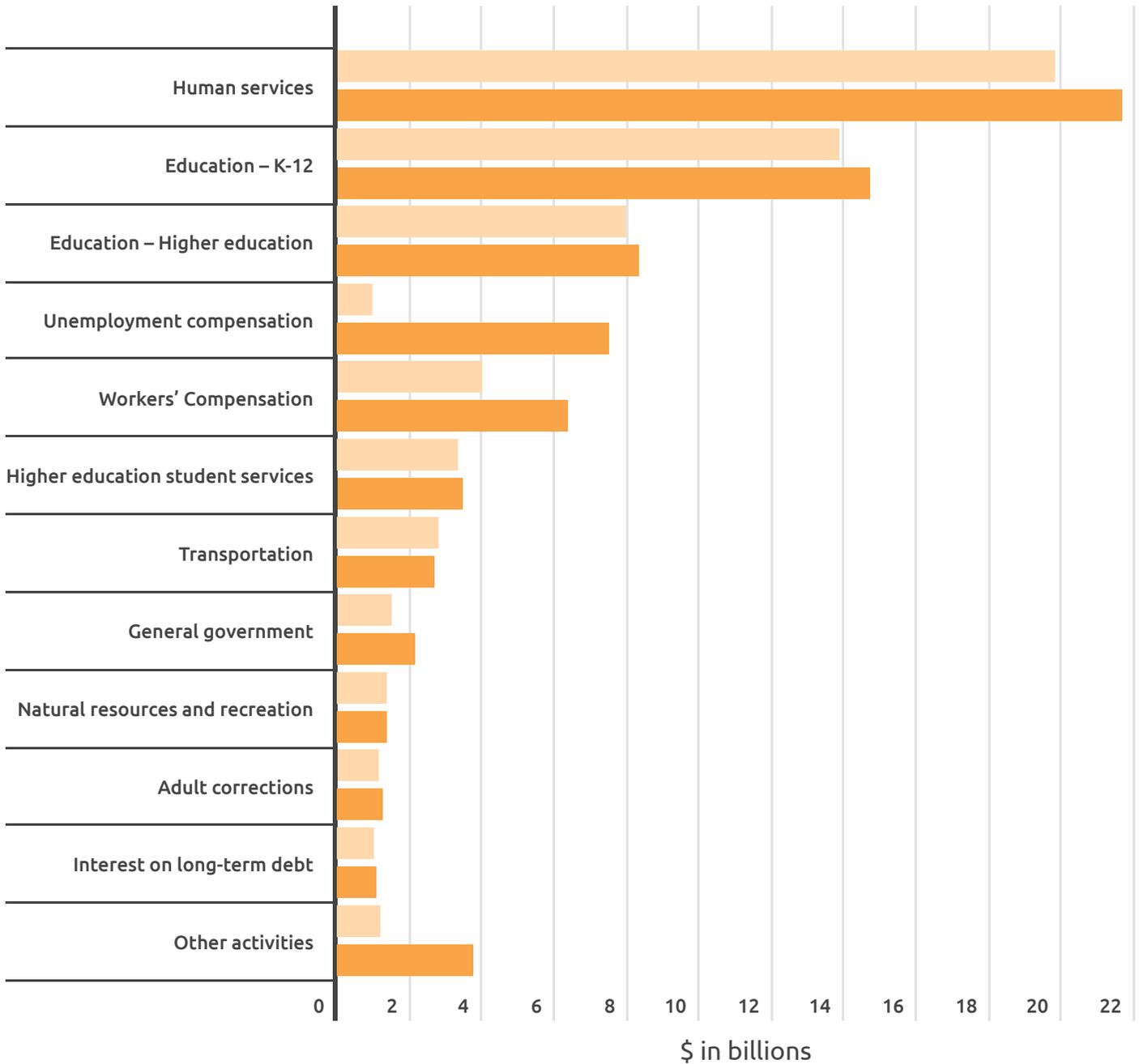
* Excludes fiduciary activities, which are when a government takes care of money that belongs to individuals or others outside of the government itself

*State revenue by source



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

*State expenses by program area



● 2019 (FY) ● 2020 (FY)

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Employment Security Department - Unemployment compensation system

Washington's unemployment insurance program is an experience-based system in which employers with a history of more layoffs generally pay a higher unemployment tax rate.

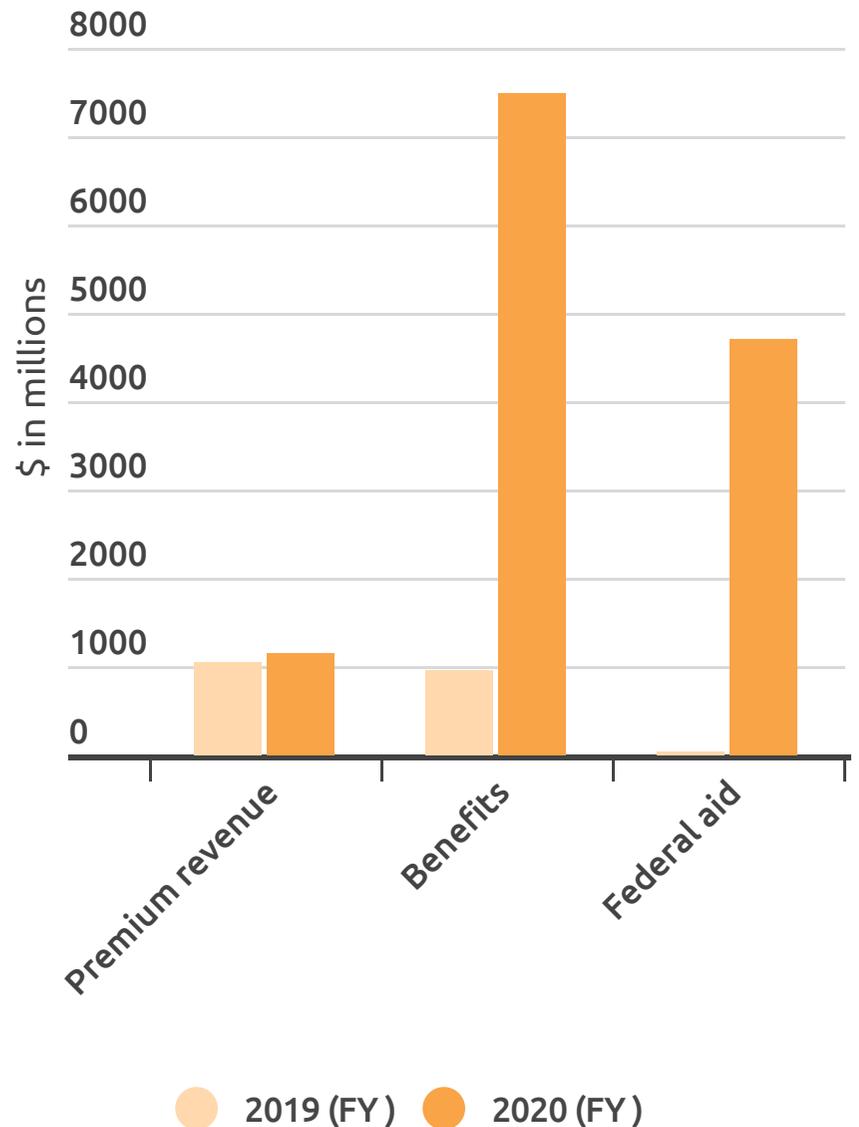
**\$2.973
billion**

The State's trust fund cash balance, as of June 30, 2020, fell 36.8% from last year's balance of \$4.704 billion. However, it is still one of the nation's largest.

9.8%

The June 2020 unemployment rate rose to almost double the rate from a year earlier due to the closing of businesses in response to COVID-19.

Significant Increases



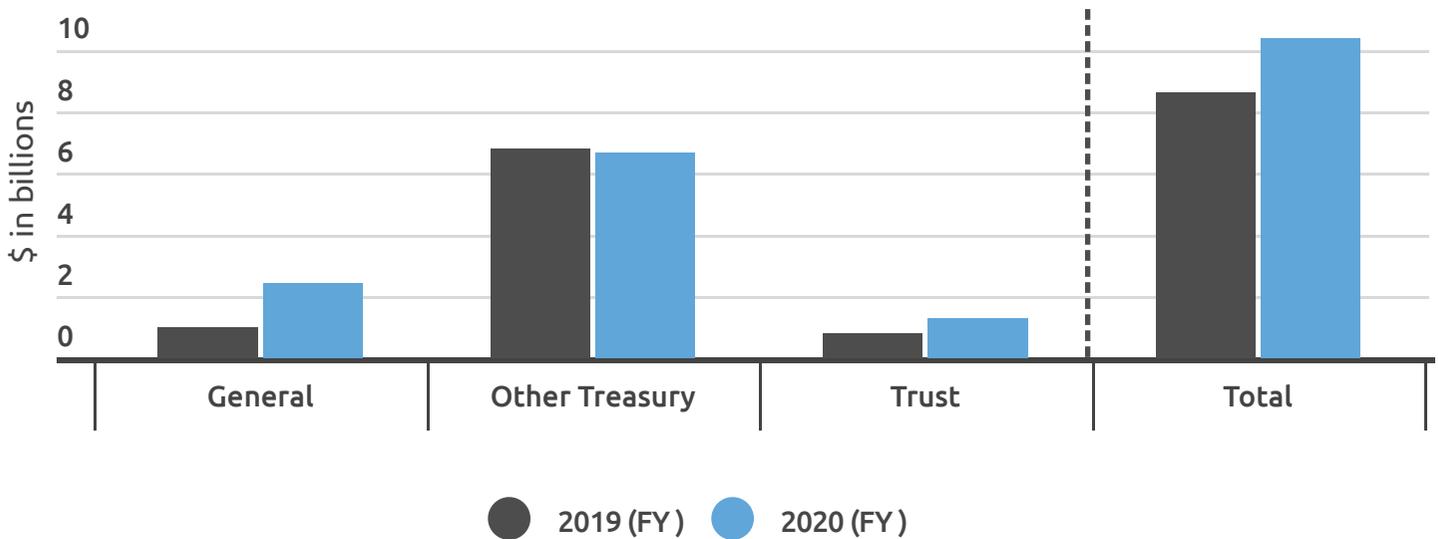
Pandemic effects on unemployment insurance

The pandemic and the implementation of the CARES Act caused unemployment insurance benefits to surge to \$7.5 billion, roughly eight times higher than the prior year.

Along with a higher number of claims, the Employment Security Department was subject to an increased rate of unemployment fraud. As of November 19, 2020, the Department estimates it paid out over 122,000 known or probable fraudulent claims totaling over \$600 million during the fiscal year ending June 30, 2020. Of this amount, about \$250 million has been recovered to date, resulting in an estimated net loss of \$350.9 million.

These amounts are included in the \$7.5 billion in reported unemployment benefits. Efforts to identify and investigate known and suspected claims and recover fraudulent amounts are ongoing.

Treasurer's ending balances by fund type



Debt burden

According to Fitch Ratings, Washington's debt levels are more than twice the U.S. state median.



20.2 billion

State's total general obligation debt (up 2.12% from June 30, 2019)



\$3,618

Debt owed by the state for every adult and child who resides in Washington.

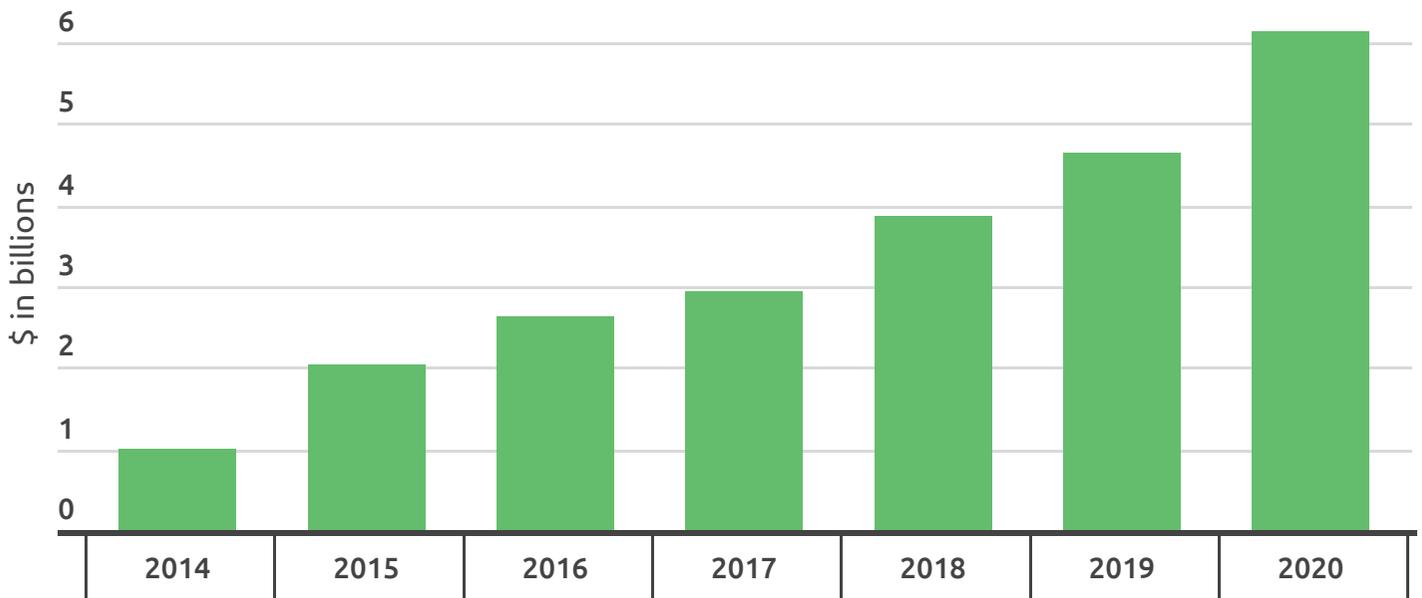


6.9

Ratio of total debt to personal income

Estimated borrowing capacity

The state Constitution limits the amount of debt the state may incur. The State Treasurer estimates the amount of additional general obligation bond issue the state could support before reaching the constitutional limit, as shown in the chart below.



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

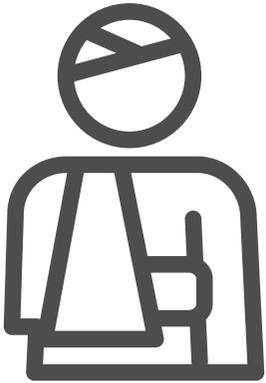
AA+

Standard & Poor's
Ratings Services

AA+

Fitch Ratings

Workers' Compensation Program



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

\$12.06 billion

Program's deficit at end of fiscal year 2020, an increase of \$1.832 billion.

The worsening deficit was caused mainly by actuarial assumption changes in the Supplemental Pension Fund causing an increase in claims expense.

\$32.79 billion

Claims and claims-adjustment liabilities (as of June 30, 2020)

\$18.06 billion

Liability for future supplemental pension cost-of-living adjustments (COLAs). These COLAs are provided to injured workers and their dependents who receive disability payments.

By statute, the state cannot set aside money to pay for these future benefits. This a key component of the programs deficit and may necessitate future premium increases or revamped benefits.

State pension plans



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 period of underfunding, retroactive benefit enhancement and investment losses.

For all state-run pension plans, the [Pew Charitable Trust's latest analysis \(FY 2018\)](#) shows Washington as having the 5th best funded ratio in the nation.



93.9%

Funded percentage of Washington's pension plans (as of June 30, 2018). The median rate for all states was 70.7%.

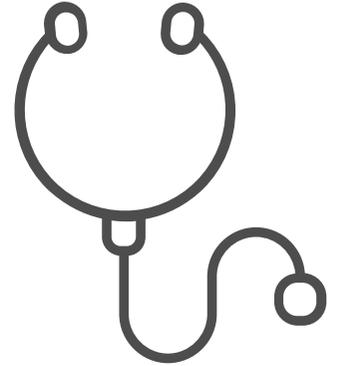
\$1.6 billion

Unfunded liability for PERS1 pension plan (as of June 30, 2019)

Post-employment benefits

The state administers a post-employment 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.

The [Pew Charitable Trust's latest analysis \(FY 2016\)](#) shows that Washington is one of 19 states, of the 48 states that reported OPEB liabilities in 2016, that has not put aside any funds to pay for promised benefits.



\$5.8 billion

Unfunded liability
(as of June 30, 2019, the most recent actuarial valuation available)

Risk Management Fund

The Risk Management Fund pays tort claims, judgments and settlements against the state. As of June 30, 2020, no cash and investments have been set aside to pay for future estimated claims totaling \$1.194 billion.

State law limits accumulating funds in the Self-Insurance Liability Program to 50 percent 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 a vote of the Legislature.

The balance increased \$60 million from the prior year, in part due to revenue transfers from the general fund. The state will likely use most of its reserves to help balance its next two-year budget to help offset lower revenue projections due to the COVID-19 pandemic.

The [National Association of State Budget Officers \(FY 2019\)](#) shows that Washington's rainy day fund is the 11th largest in the nation and represents about 11.4% of General Fund expenditures.

