



Office of the Washington State Auditor

Pat McCarthy

A look at how Washington managed public money in 2021

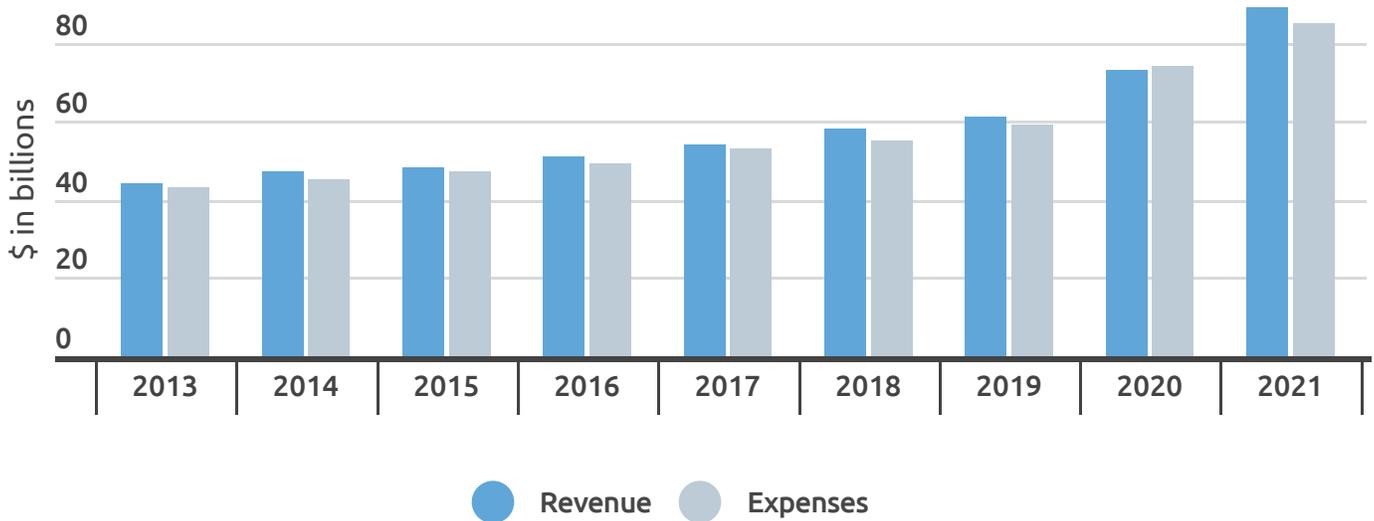
Annual Comprehensive Financial Report summary

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 (338 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.

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, including revenues and expenditures, cash balances and debt.

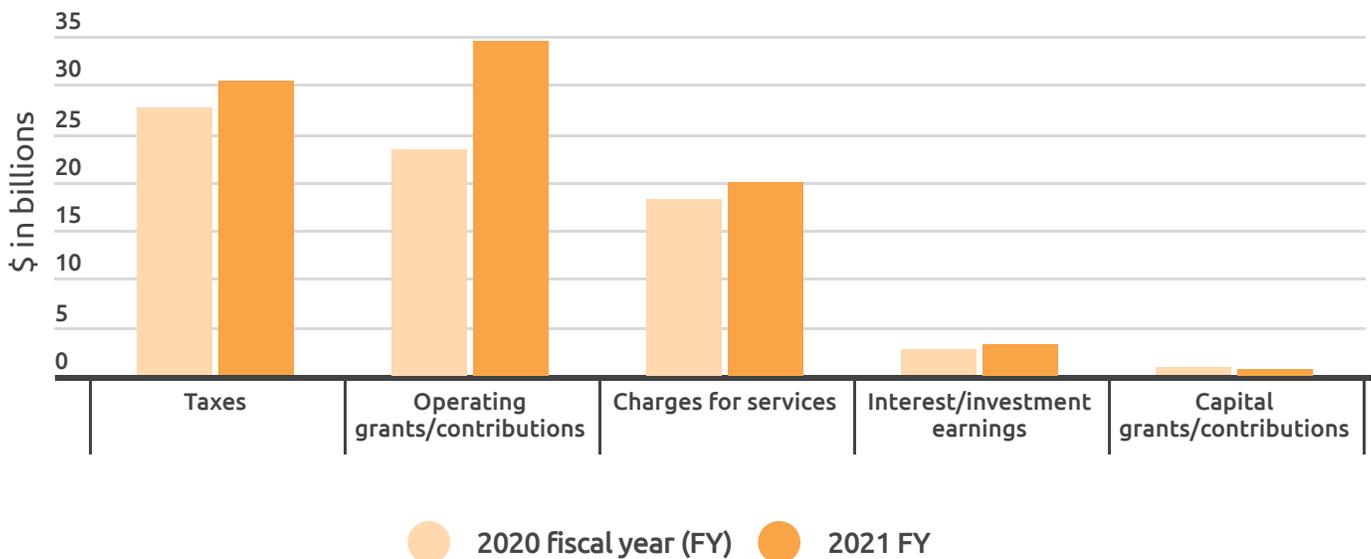
Our audit of the fiscal year 2021 ACFR resulted in a clean audit opinion, meaning we concluded the financial statements fairly presented the state's financial position. In spite of delays associated with the COVID-19 pandemic, we were able to issue this opinion before our statutory deadline. The full report is available on the state's [Office of Financial Management website](#).

*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 people or others outside of the government itself

Operating Grants and contributions

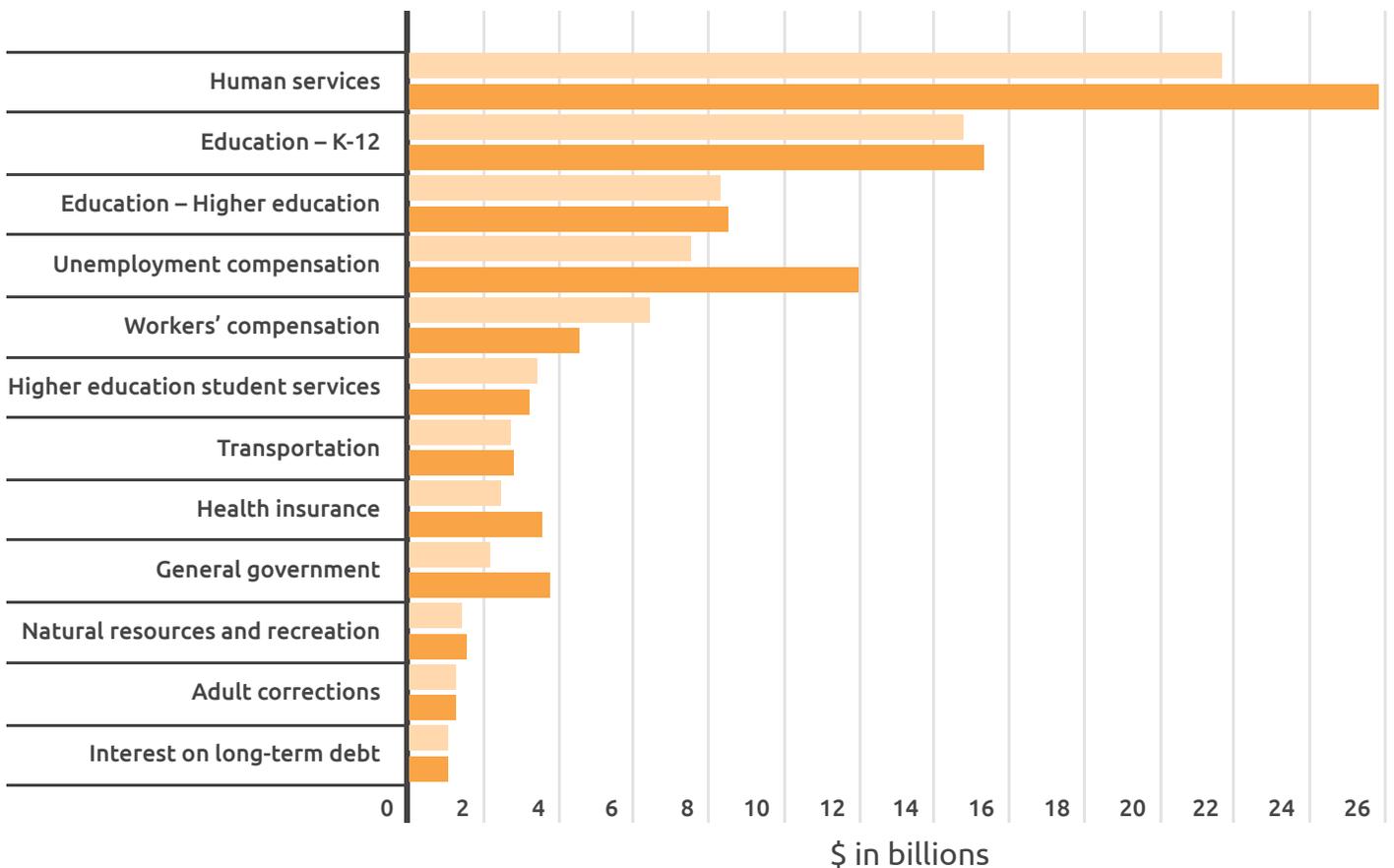
Much of the increase in operating grants and contributions was attributable to federal stimulus funds received in response to the COVID-19 pandemic. This money helped fund increased human services expenditures and unemployment benefit payments, but this level of federal funding is unlikely to continue in the future.

\$

**34.46
billion**

Grew by \$11.15 billion (or 48%) in fiscal year 2021 compared to fiscal year 2020.

*State expenses by program area



● 2020 (FY) ● 2021 (FY)

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

Employment Security Department: Unemployment compensation system

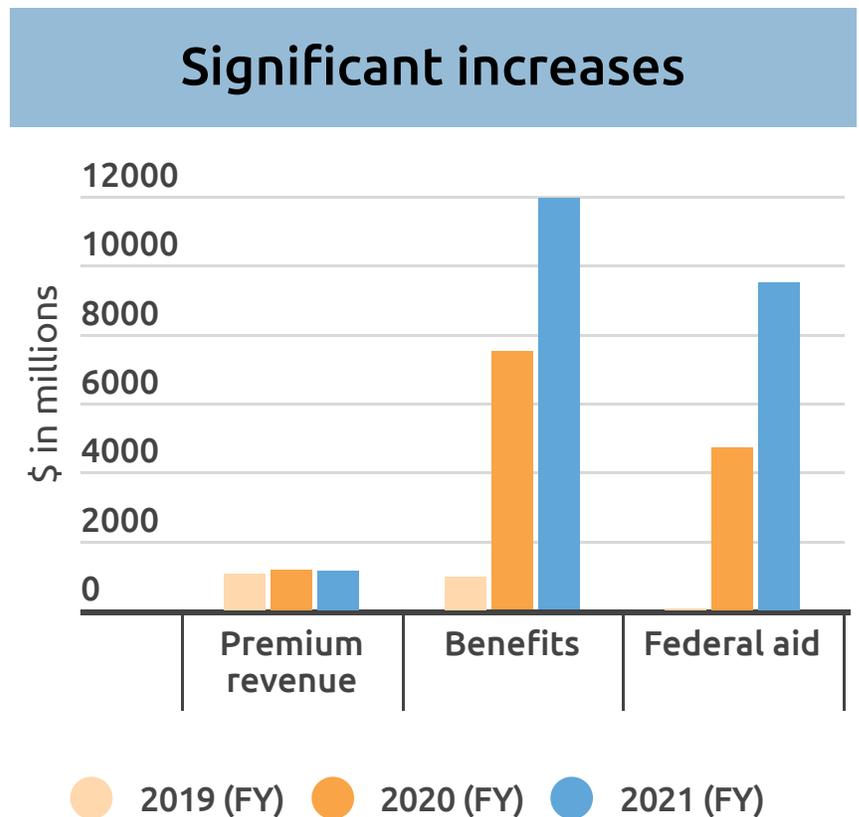
Washington's unemployment insurance program is an experience-based system in which employers with a history of more layoffs generally pay a higher unemployment tax rate.

**\$2.003
billion**

The state's trust fund cash balance, as of June 30, 2021, fell 32.6% from last year's balance of \$2.972 billion. However, it is still one of the nation's largest.

5.2%

The June 2021 unemployment rate fell from the 2020 rate of 9.8% as the economy began to reopen.



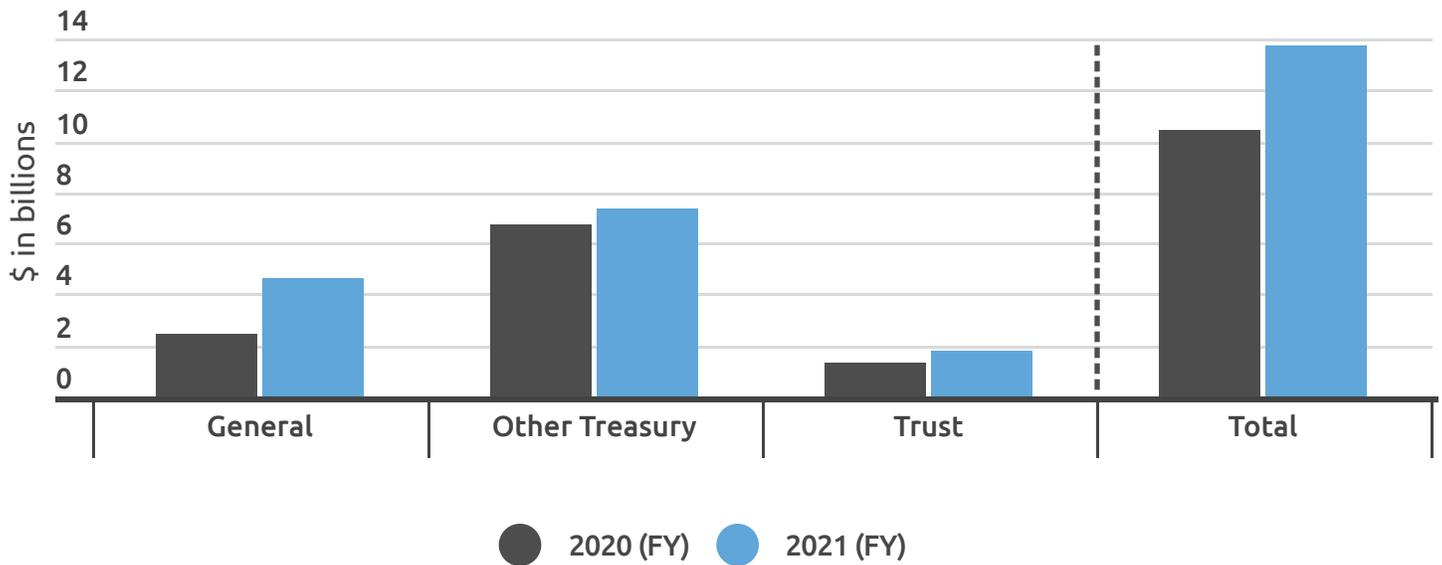
Pandemic effects on unemployment insurance

The pandemic and the implementation of the CARES Act caused unemployment insurance benefits to soar in both fiscal years 2020 and 2021.

With the higher number of claims, the Employment Security Department was subject to a higher rate of unemployment fraud. For fiscal year 2020, the Department estimates it paid out over 122,000 known or probable fraudulent claims totaling over \$600 million. Efforts to identify and investigate known and suspected claims and recover fraudulent amounts are still ongoing.

Treasurer's ending balances by fund type

Due to unspent federal money, the state's ending fund balances were higher in fiscal year 2021.



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.



20.7 billion

State's total general obligation debt (up 2.86% from June 30, 2020).



\$3,686

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

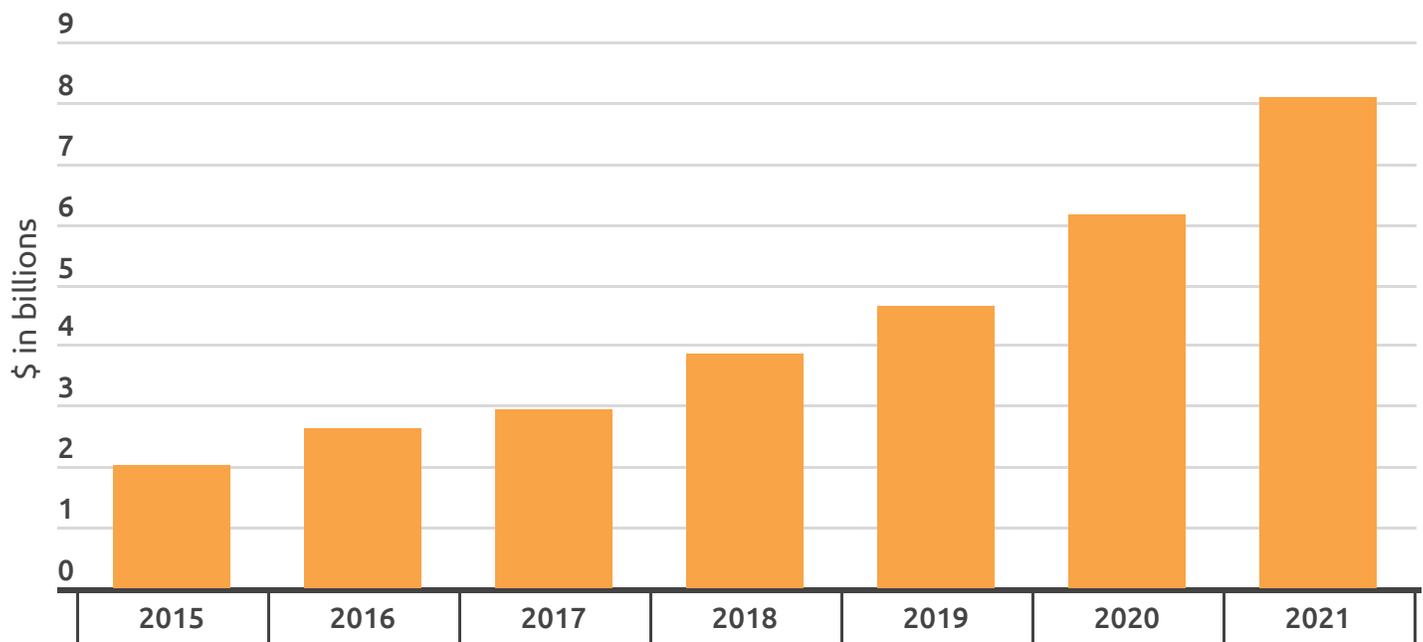


5.4

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. The state's estimated borrowing capacity has continued to increase over the last several years.



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

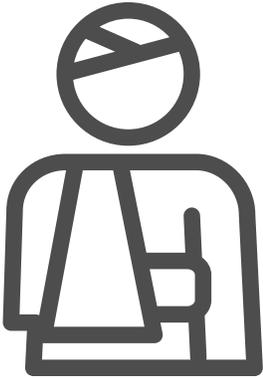
AA+

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.



\$12.87 billion

Program's deficit at end of fiscal year 2021, an increase of \$802.8 million.

The worsening deficit was caused mainly by lower premiums and assessments revenue and lower investment income.



\$34.58 billion

Claims and claims-adjustment liabilities (as of June 30, 2021)



\$19.05 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



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 \(FY 2019\)](#) shows Washington as having the 4th best funded ratio in the nation.



96.3%

Funded percentage of Washington's pension plans (as of June 30, 2019). The median rate for all states was 71.3%.



\$1.5 billion

Unfunded liability for PERS1 pension plan (as of June 30, 2020).

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.



**\$6.1
billion**

Unfunded liability (as of June 30, 2020, 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, 2021, the state has not set aside any cash and investments 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 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.

The [National Association of State Budget Officers \(FY 2020\)](#) shows that Washington had one of the smallest rainy day funds in the nation at June 30, 2021. In the previous fiscal year, Washington's rainy day fund was the 11th largest in the nation.

