



# Washington State Auditor's Office

Government that works for citizens

## 2015 Comprehensive Annual Financial Report Summary

February 2016

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 with detailed information on the state's structure, services, finances, trends and nonfinancial data.

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.



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## ***The mission of the Washington State Auditor’s Office***

The State Auditor’s Office holds state and local governments accountable for the use of public resources.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, **electronic subscription service**.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

For more information about the State Auditor’s Office, visit **[www.sao.wa.gov](http://www.sao.wa.gov)**.

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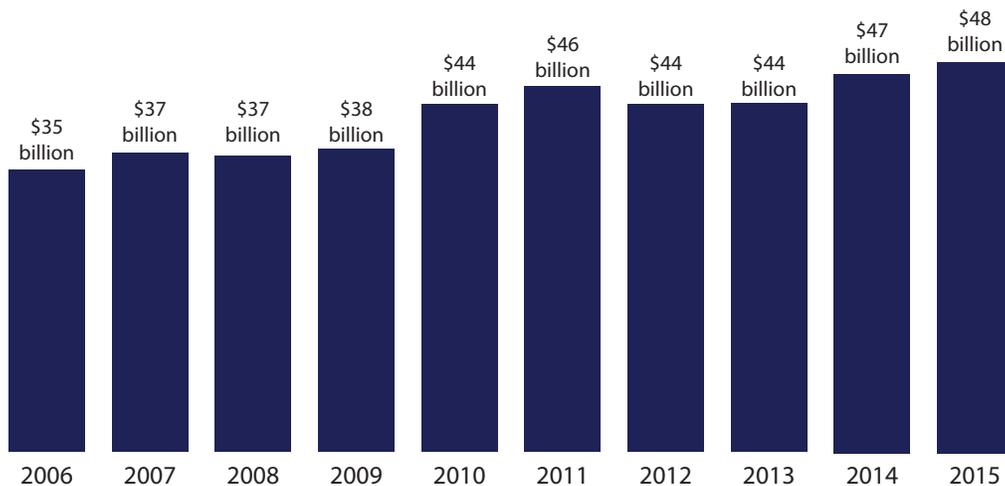
360-725-5617, [PublicRecords@sao.wa.gov](mailto:PublicRecords@sao.wa.gov)

# A snapshot of Washington's finances

The Office of Financial Management prepares the CAFR in accordance with Generally Accepted Accounting Principles for Governments. We perform an independent audit of the CAFR in accordance with Generally Accepted Governmental Auditing Standards. Our audit of the fiscal year 2015 CAFR 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 Office of Financial Management website at [www.ofm.wa.gov/cafr/](http://www.ofm.wa.gov/cafr/).

## Exhibit 1 – Total primary government revenue for the past 10 fiscal years: 2006-2015

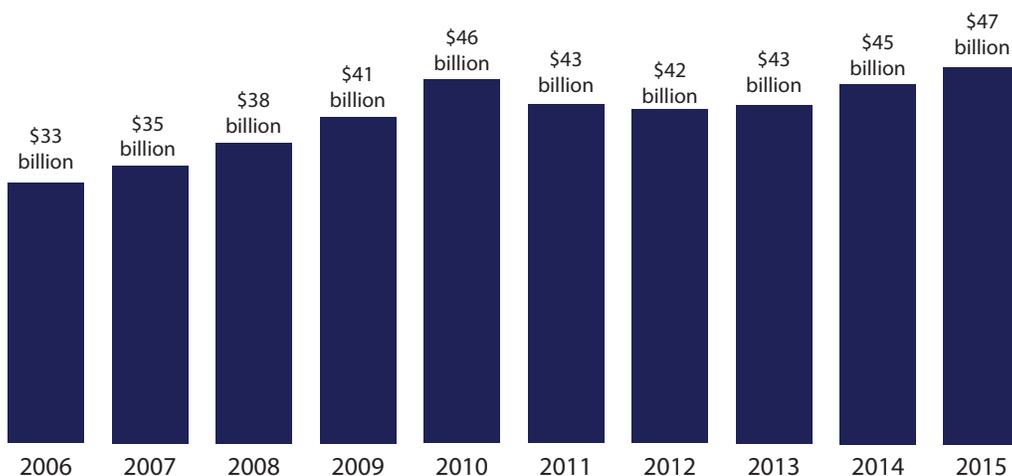
*For fiscal years ending June 30*



Source: Office of Financial Management.

## Exhibit 2 – Total primary government expenses for the past 10 fiscal years: 2006-2015

*For fiscal years ending June 30*



Source: Office of Financial Management.

### Exhibit 3 – Total primary government revenue: 2015 compared to 2014

*Dollars in billions*

Revenue by source	FY 2014	FY 2015	Change in dollar value	Percent change
Charges for services	\$12.266	\$12.616	\$0.350	2.85%
Operating grants and contributions	\$13.566	\$15.235	\$1.669	12.30%
Capital grants and contributions	\$1.066	\$0.867	(\$0.199)	-18.67%
Taxes	\$17.871	\$18.152	\$0.281	1.57%
Interest and investment earnings	\$2.239	\$0.684	(\$1.555)	-69.45%
<b>Total revenues</b>	<b>\$47.008</b>	<b>\$47.554</b>	<b>\$0.546</b>	<b>1.16%</b>

Source: Office of Financial Management.

### Exhibit 4 – Total primary government expenses: 2015 compared to 2014

*Dollars in billions*

Expenses	FY 2014	FY 2015	Change in dollar value	Percent change
General government	\$1.607	\$1.987	\$0.380	23.65%
Education – K-12	\$8.914	\$9.426	\$0.512	5.74%
Education – Higher education	\$6.910	\$7.095	\$0.185	2.68%
Higher education student services	\$2.080	\$2.314	\$0.234	11.25%
Guaranteed tuition program	\$0.185	(\$0.585)	(\$0.770)	-416.22%
Human services	\$15.052	\$16.890	\$1.838	12.21%
Workers' Compensation	\$3.142	\$3.018	(\$0.124)	-3.95%
Unemployment Compensation	\$1.380	\$0.968	(\$0.412)	-29.86%
Adult corrections	\$0.911	\$0.956	\$0.045	4.94%
Natural resources and recreation	\$1.137	\$1.335	\$0.198	17.41%
Transportation	\$2.400	\$2.309	(\$0.091)	-3.79%
Interest on long-term debt	\$0.938	\$0.981	\$0.043	4.58%
Washington's Lottery	\$0.463	\$0.466	\$0.003	0.65%
Other activities	\$0.133	\$0.158	\$0.025	18.80%
<b>Total expenses</b>	<b>\$45.252</b>	<b>\$47.318</b>	<b>\$2.065</b>	<b>4.56%</b>

Source: Office of Financial Management.

## Highlights

### General Fund cash balance

As the table below shows, the state's General Fund cash position improved in fiscal year 2015. However total General Fund, Treasury and Trust Fund cash decreased by \$174 million, or 3.25 percent, as of June 30, 2015.

### Exhibit 5 – State Treasurer's ending cash balances: 2015 compared to 2014

*Dollars in billions*

Fund type	FY 2014	FY 2015	Change in dollar value	Percent change
General	\$0.401	\$1.001	\$0.600	149.63%
Other Treasury	\$3.994	\$3.470	(\$0.524)	-13.12%
Trust	\$0.954	\$0.704	(\$0.250)	-26.21%
<b>Total</b>	<b>\$5.349</b>	<b>\$5.175</b>	<b>(\$0.174)</b>	<b>-3.25%</b>

Source: State Treasurer.

Note: The state's financial statements indicate the General Fund has a \$1.67 billion cash balance. For financial statement reporting, additional accounts are considered to be part of the General Fund.

### Revenues

As Exhibit 3 shows, total revenues for the state increased modestly by \$545 million, or 1.16 percent, in 2015 compared to 2014. In the prior year, revenue increased moderately by 7.27 percent. Fiscal year 2015 revenue increases were tempered by lower investment and interest earnings, which decreased by \$1.555 billion.

### Expenses

Total state expenses in 2015 increased by \$2.065 billion and were 4.56 percent higher than in 2014. Exhibit 4 shows an expense increase led primarily by human services, which rose by more than 12 percent. A significant reduction in Guaranteed Education Tuition program expenses was achieved due to legislation reducing tuition at public higher education institutions.

### Debt burden

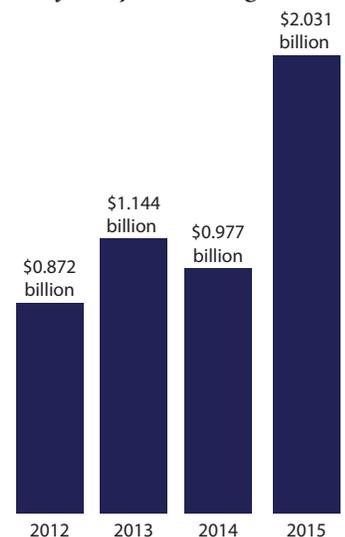
At the end of fiscal year 2015, the state's total debt per capita was \$3,515, and the ratio of total debt to personal income was 7.1 percent. According to Moody's Investors Service, Washington's debt ratios are more than twice the 50 state median level. Standard & Poor's Ratings Services has described the state's direct tax-supported debt burden as moderately high.

**Borrowing capacity:** At the end of fiscal year 2015, the state had general obligation debt of \$19.9 billion, an increase of 2.5 percent over fiscal year 2014.

The state has pledged its full faith, credit and taxing power to repay this debt. The state Constitution limits the amount of state debt that may be incurred by restricting the amount of general state revenues that may be allocated to pay principal and interest on the debt. The state has not exceeded its constitutional debt limit. As of June 30, 2015, the State Treasurer estimated the state could support an additional general obligation bond issue of about \$2.031 billion before reaching the constitutional limit. The graph to the right shows how the borrowing capacity has changed over the past four years.

### Exhibit 6 – Estimated borrowing capacity

*For fiscal years ending June 30*



Source: State Treasurer.

**Debt capacity:** Effective July 1, 2014, the state revised the method it uses to calculate debt capacity. Previously, it calculated the debt capacity using a three-year average of selected General Fund revenues. However, because of a voter-approved Constitutional amendment, the calculation now includes more revenues, a six-year average and a gradually reducing rate used to calculate the debt-service limitation.

The graph on the right shows the state's debt-service payments, which have increased over the past four years.

The State Treasurer's report on [Certification of the Debt Limitation of the State of Washington Fiscal Year 2015](#) can be found on its website.

## Bond ratings

On June 30, 2015, the state's general obligation debt was rated Aa1 by Moody's Investors Service, AA+ by Standard & Poor's Ratings Services and AA+ by Fitch Ratings. These ratings remain unchanged from 2011. 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. Standard & Poor's described the state's long term outlook as "stable," reflecting its view that the state's liquidity, financial trends and strengthening economy point to an improving financial position. The credit-rating service also considers the state's strong financial-management policies and institutions in its projection.

## Workers' Compensation Program

The Workers' Compensation Program's deficit increased \$401 million during fiscal year 2015, ending the year with a deficit balance of \$9.92 billion. The total net position deficit increase results mainly from a decrease in investment income compared to the previous fiscal year.

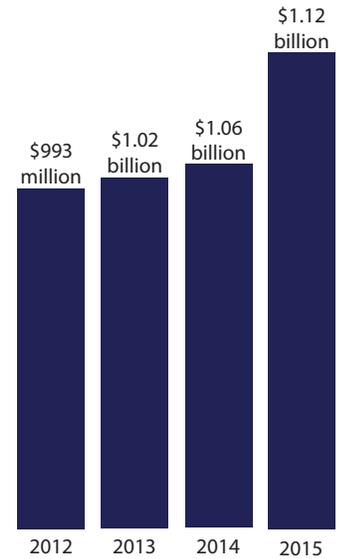
The Workers' Compensation Program's claims and claims-adjustment liabilities were \$25.07 billion as of June 30, 2015. Only \$13.24 billion is funded by long-term investments, leaving an unfunded liability of \$11.83 billion for supplemental pension cost-of-living adjustments (COLAs). These COLAs are provided to injured workers and their dependents who receive disability payments. The state cannot save money in a fund to pay for these costs, because state law requires this program to be operated on a pay-as-you-go basis. This will put pressure on the Department of Labor and Industries to raise employer and employee premium rates or revamp benefits.

An independent actuary hired by the State Auditor's Office reviewed the Workers' Compensation Fund and gave the following assessments and opinions:

Contingency reserves increased during the fiscal year that ended June 30, 2015. However, the contingency reserves, as a percentage of loss and loss adjustment expense reserves, are below levels benchmarked to other workers' compensation state funds.

If the Department of Labor and Industries raises premium rates from 2017 through 2020 consistent with long-term averages, the actuary estimates a 9.9 percent chance the contingency reserve will fall below zero, or become actuarially insolvent. For more detailed explanation, see the [State of Washington Workers' Compensation Funds](#) audit report for the fiscal year ending June 30, 2015, on our website.

**Exhibit 7**  
**Debt-service payments**  
**for tax-related debt**  
*For fiscal years ending June 30*



Source: State Treasurer.

## Unemployment compensation system

The unemployment compensation system reported operating income of \$344.9 million in fiscal year 2015, compared to \$272.6 million in fiscal year 2014. Washington's unemployment insurance program is an experience-based system, with the largest part of an individual employer's tax rate based on the employer's layoff history over the past four years. Therefore, employers with a history of more layoffs generally pay a higher unemployment tax rate. The economic recovery in the state stabilized employment, and reduced fiscal year 2015 unemployment insurance benefits by \$411.7 million from fiscal year 2014. The benefit cost decrease resulted from a decline in the number and duration of claims. The state's unemployment rate for June 2015 was 5.3 percent, down from 5.4 percent in June 2014, and the insured rate declined to 1.5 percent in fiscal year 2015 from 1.8 percent in fiscal year 2014. Premium revenue increased by 6.8 percent, reflecting a growing work force and a higher taxable wage base. Federal aid for unemployment decreased by \$247 million, reflecting the decrease in the unemployment rate.

The state's Unemployment Trust Fund cash balance of \$3.675 billion at June 30, 2015, is one of the nation's largest.

## State pension plans

Two of the state's closed pension plans, PERS 1 for retired state employees and TRS 1 for retired teachers, have significant unfunded liabilities. That means the state does not have enough money set aside to pay the promised retirement benefits to retirees in those two systems. This situation was primarily caused by periods of underfunding, retroactive benefit enhancements and investment losses. As of June 30, 2014, the state's share of the PERS 1 net pension liability was \$2.1 billion, and the plan was 61 percent funded. The state's share of the TRS 1 net pension liability was \$22.9 million, and the plan was 69 percent funded. The Washington State Actuary's website shows the [actuarial valuation of the state's retirement systems as of June 30, 2014](#).

## 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. This plan operates on a pay-as-you-go basis and does not accumulate resources for future payments. The plan had an unfunded liability of \$5.3 billion as of January 1, 2015.

## Guaranteed Education Tuition (GET) program

The GET program is administered by the Washington Student Achievement Council (WSAC), which was established in 2012 and replaced the Higher Education Coordination Board. The purpose of WSAC is to make higher education more affordable and accessible for Washington's citizens.

Legislation enacted in 2015 reduced tuition at all public institutions of higher education during the next two years. This improved the funded status of the program. The October 23, 2015, actuarial analysis of the GET program showed the program's assets exceed the present value of future payment obligations by \$820 million as of June 30, 2015. This means the program is fully funded, at 140.1 percent of total obligations.

**Exhibit 8 – GET program obligations, assets and reserves/deficits for the past five fiscal years: 2011-2015**

*Dollars in billions*

Fiscal year ending June 30	Present value of obligations for future payments	Program assets	Reserve/ (deficit)	Funded status
2011	\$2.731	\$2.161	(\$0.570)	79.1%
2012	\$2.942	\$2.311	(\$0.631)	78.6%
2013	\$2.716	\$2.557	(\$0.160)	94.1%
2014	\$2.767	\$2.928	\$0.161	105.8%
2015	\$2.042	\$2.862	\$0.820	140.1%

Source: State Actuary.

**Risk Management Fund**

The Risk Management Fund has set aside \$60.8 million in cash and investments to pay for future estimated claims of \$580 million as of June 30, 2015. This fund pays tort claims, judgments and settlements against the state. State law limits accumulating funds in the Self-Insurance Liability Program to 50 percent of total outstanding and actuarially determined claims.

**Exhibit 9 – Tort payouts and defense costs for the past five fiscal years: 2011-2015**

*Dollars in millions*

Fiscal year ending June 30	Tort payouts	Defense costs	Total
2011	\$74	\$37	\$111
2012	\$43	\$17	\$60
2013	\$66	\$18	\$84
2014	\$48	\$19	\$67
2015	\$60	\$21	\$81

Source: Office of Financial Management.

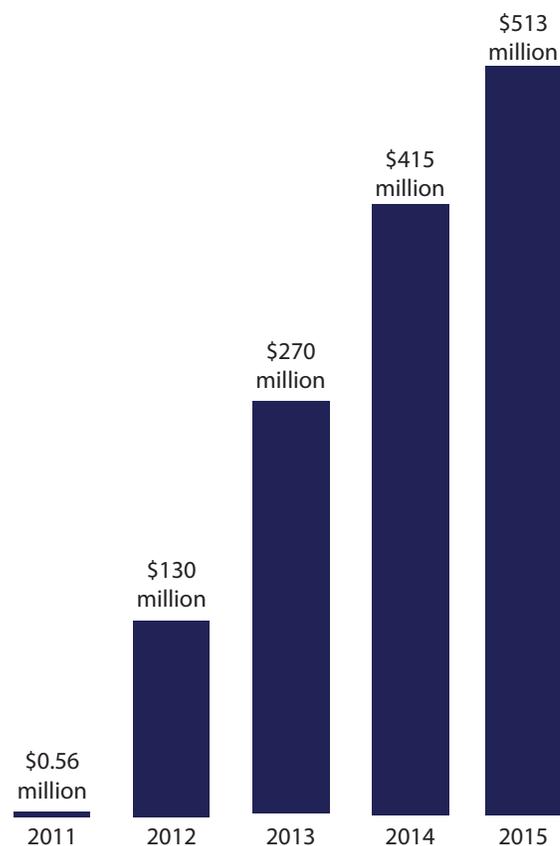
## State budget

Washington continues to face the requirements of the state Supreme Court's 2012 McCleary ruling that the state has failed to meet its constitutional requirement to amply fund basic education. Although funding progress was made through the 2013-15 biennial budget, it was insufficient to satisfy the Court. On August 13, 2015, shortly after the conclusion of the 2015 legislative session, the Court ordered daily penalties of \$100,000 until the Legislature fully funds basic education as previously ordered. The state currently estimates meeting the remaining McCleary decision obligations could require as much as \$3.5 billion per biennium above currently budgeted K-12 spending levels.

The state's Budget Stabilization Account ("rainy-day fund") balance of \$513.1 million, as of June 30, 2015, is bolstered by \$211.9 million transferred to the account from the General Fund on June 30, 2015, in accordance with a November 2011 state Constitutional amendment. The graphic below shows the fiscal year-end balances in the Budget Stabilization Account over the past five fiscal years. The account contains a significantly higher balance now than in 2011.

### Exhibit 10 – Budget Stabilization Account ("rainy-day fund") fiscal year-end balances for the past 5 fiscal years: 2011-2015

*For fiscal years ending June 30*



Source: Office of Financial Management.