



STATE OF WASHINGTON
OFFICE OF FINANCIAL MANAGEMENT

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December 21, 2021

The Honorable Jay Inslee, Governor
Honorable Members of the Legislature
Citizens of the State
State of Washington
Olympia, WA 98504

In accordance with Revised Code of Washington 43.88.027, the Office of Financial Management has prepared this Annual Comprehensive Financial Report (ACFR) of the state of Washington for the fiscal year ended June 30, 2021. Full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control established for this purpose, rests with the state. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The State Auditor has issued an unmodified (“clean”) opinion on the Washington state financial statements for the fiscal year ended June 30, 2021. The independent auditor’s report is located at the front of the financial section of this report.

Management’s Discussion and Analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Following the MD&A are the basic financial statements, including the government-wide financial statements, fund financial statements, and notes to the financial statements. The required supplementary information, combining financial statements, individual fund schedules, and statistical section complete the ACFR.

Profile of Washington State

Washington state was created in 1889 by an enabling act of Congress. The state is located on the Pacific Coast, in the northwestern corner of the continental United States, and comprises 71,298 square miles. Its current population is 7.8 million. Washington is famous for its breathtakingly beautiful scenery and sharp contrasts. On the west side of the state, high mountains rise above coastal waters. The forests of the Olympic Peninsula are among the world’s rainiest places. The state’s coastline features hundreds of bays and inlets that make excellent harbors, while in the eastern part, flat semi-desert land stretches for long distances without a single tree.

Washington's location makes it a gateway for land, sea, and air travel to Alaska and Pacific Rim countries. Ships from all parts of the world dock at Washington ports. Costco Wholesale Corporation, headquartered in Issaquah, operates an international chain of membership warehouses. Microsoft, a global leader in the computer software industry, makes its home in Redmond. Amazon, a major internet retailer, Starbucks, a worldwide renowned coffee company, and Weyerhaeuser Company, a major producer of wood and related products, are headquartered in Seattle.

East of the Cascade Mountain range, farmers raise livestock and grow a variety of crops such as wheat, potatoes, and tree fruits. Washington leads the nation in apple and hops production, makes world-class wine, and produces large amounts of lumber, pulp, paper, and other wood products. Western Washington's mild, moist climate makes that region excellent for dairy farming and the production of flower bulbs.

GOVERNMENTAL STRUCTURE

As established in the state Constitution, Washington state has executive, legislative, and judicial branches of government. The Executive Branch is composed of nine elected officials: the Governor, Lieutenant Governor, Secretary of State, State Treasurer, State Auditor, Attorney General, Superintendent of Public Instruction, Insurance Commissioner, and Commissioner of Public Lands. Thirty-nine agency heads are appointed by, and report to, the Governor. Seventy-eight agency heads report to boards appointed, in whole or in part, by the Governor. The Legislative Branch is composed of the Senate (with 49 members) and the House of Representatives (with 98 members). The Judicial Branch is composed of the State Supreme Court, the highest court in the state, which has nine justices. Every two years, three justices are elected for six-year terms. A Chief Justice is chosen from among the most senior justices. The Judicial Branch also includes the state's superior courts, justices of the peace, and such inferior courts as the Legislature may provide.

TYPES OF SERVICES PROVIDED AND REPORTING ENTITY

The state provides a wide range of services that include education, transportation, environment and natural resource protection, and social and health services.

The accompanying report includes all funds and subsidiary accounts of the primary government, Washington state as legally defined, as well as its component units. Component units are legally separate entities for which the primary government is financially accountable or ones that have relationships with the state such that exclusion would cause the state's financial statements to be misleading or incomplete. Note 1.A to the financial statements explains more fully component units which are included in the reporting entity.

THE BUDGET CYCLE

Washington enacts budgets for a two-year cycle, beginning on July 1 of each odd-numbered year. By law, the Governor must propose a biennial budget in December, the month before the Legislature convenes in regular session. The biennial budget enacted by the Legislature can be modified in any legislative session through changes to the original appropriations. Since the inception of annual legislative sessions in 1979, it has become common for the Legislature to enact annual revisions to the state's biennial budget. These revisions are referred to as supplemental budgets.

Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year in the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level. The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances.

Washington State's Economic and Revenue Outlook

Recent economic performance in Washington has been constrained by the ongoing efforts to contain the COVID-19 pandemic. During the early stages of the pandemic, higher risk economic activities that involve close physical proximity between workers, between consumers and workers, or where consumers are in close proximity to each other, were tightly controlled to help limit virus transmission. This resulted in unprecedented job losses — hitting the entertainment, hospitality, personal services, and food and beverage sectors particularly hard. The first wave of impacts resulted in a loss of 421,200 non-farm jobs. As of August 2021, non-farm employment had rebounded by 301,200 jobs. That still leaves the state with 120,000 fewer jobs compared to March 2020. Because the pandemic is a public health crisis with serious economic consequences — as opposed to the more typical economic recession with public health consequences — the pattern of recovery is without precedent. After the initial job losses during the Great Recession, it took 70 months to return to the prior job peak. It is expected that this jobs recovery will take until the third quarter of 2022, for a loss to recovery duration of 30 months. Despite the shorter duration than the prior recovery, the number of permanent job losses, labor force exits, and permanent business closures may have longer-term consequences.

Washington's jobless rate has bested the national rate during the latter part of the pandemic recovery. Washington's rate has traditionally been higher than the national norm due to the state's outsized share of seasonal industries and its attractiveness to in-migrants searching for opportunity and the Northwest experience. Over the past five years, 74 percent of Washington's population growth has been due to migration. More recent forecasts expect Washington's jobless rate to trend above the national average, likely the result of strengthening population growth and the accompanying frictional lag in employment. In fundamental ways, this reflects the confidence workers have in finding gainful employment. By the end of the next biennium (2021–23), Washington's unemployment rate is projected to decline to 4.2 percent from the current 5.1 percent.

Personal income in Washington is expected to moderate over the next two fiscal years after concerted efforts to provide pandemic relief funds to individuals and households boosted fiscal year 2020 real personal income by 4.7 percent. Real personal income grew 4.7 percent in fiscal year 2021, is expected to decline by 1.6 percent in fiscal year 2022 as households draw down their pandemic savings, and grow by 3.3 percent in fiscal year 2023. In comparison, U.S. income growth is expected to be 1.6 percent, 5.3 percent, and 3.1 percent, respectively. On a per-capita basis, Washington's real personal income should reach \$62,643 in fiscal year 2023, over \$8,400 above the U.S. average.

These gains in Washington's personal income will occur despite the decline in aerospace employment, a traditional driver of Washington's economy. Aerospace jobs are expected to drop from 70,900 jobs in fiscal year 2021 to 62,600 jobs in fiscal year 2023. Even though Washington's non-farm employment declined 3.5 percent in fiscal year 2021, thanks to gains in software publishing, electronic shopping and mail order, and other technology sectors, Washington is projected to net a 4.7 percent increase in total payroll jobs in fiscal year 2022 and 3 percent in fiscal year 2023.

Construction activity in Washington is expected to trend to a more historically normal level in the next several fiscal years. While demand for new office space was prompted by burgeoning growth in the technology sectors, the commercial sector does tend to overbuild, leading to subsequent periods of higher vacancies and gradual absorption. Building permits totaled 49,600 in fiscal year 2021, and should hold at 49,200 in fiscal year 2022 and 45,000 in fiscal year 2023. As a result, construction employment should trend down to 216,900 jobs in fiscal year 2023 from 219,400 jobs in fiscal year 2021. That should ease the share of construction jobs to 6.1 percent of total non-farm employment, the historic average.

General Fund-State revenues grew 3.3 percent in fiscal year 2019, 6.2 percent in fiscal year 2020, and 13.3 percent in fiscal year 2021. GF-S revenues are expected to grow 3.8 percent in fiscal year 2022 and 1.5 percent

in fiscal year 2023. The recovering economy, rebounds in hiring and consumer spending, and a steady housing market should keep revenues growing at a moderate pace.

Major Initiatives

HEALTH AND HUMAN SERVICES

Covering more people, providing better care at lower costs. Governor Inslee's Healthier Washington Plan will transform health care so that people experience better health during their lives, receive better care when they need it, and get more affordable and accessible care.

COVID-19 response. The Washington State Department of Health coordinates the COVID-19 response with local health jurisdictions, other state agencies, and health care providers. The response to the COVID-19 pandemic has included testing and contact tracing, outbreak response, data collection and analysis, incident management and vaccination distribution and outreach.

Foundational public health services. The Department of Health coordinates a partnership with counties and tribal governments to address the key areas of communicable disease, environmental health, and assessment and support activities for these areas.

Transform the behavioral health system. Governor Inslee rolled out his multi-year plan for transforming the behavioral health system. It includes decentralizing long-term civil mental health commitments, creating forensic centers of excellence at the state psychiatric hospitals, and building recovery-based services and supports in the community. Long-term inpatient civil commitments will transition from two large state institutions to smaller, community-based facilities that treat patients more effectively in their home communities closer to family and friends. These include a mix of state-owned and -operated facilities and private providers. Regional recovery-based services and supports will ensure individuals receive the appropriate level of care in the right settings, with a goal of diverting individuals from inpatient commitments.

Help at-risk children and families thrive from the start. In 2016, the Governor convened the Blue Ribbon Commission on Children and Families, a group of experts who recommended bringing together early learning and family support services into one agency. As a result, the state launched the Department of Children, Youth, and Families in 2018 to deliver preventive family interventions and equity in services for all Washington children. The agency provides all services previously housed in the Department of Early Learning and some services that the Department of Social and Health Services used to provide. This includes juvenile rehabilitation, which transferred to the new agency in fiscal year 2020. With the passage of the Fair Start for Kids Act in 2021, Washington's child care system will be more accessible and affordable for all families in Washington state, beginning in July 2021.

Reduce homelessness. Several large efforts are underway to address the state's homelessness crisis. This includes new funding for temporary rent assistance, permanent supportive housing programs, emergency sheltering, and an increase in grant awards to enrollees in several social and health programs.

ECONOMY

Paid family and medical leave. In 2019, Washington began collecting premiums to launch its best-in-the-nation paid family and medical leave program, approved on a bipartisan basis by legislators in 2017. Beginning in 2020, employees could become eligible for up to 12 weeks of paid medical leave for a serious health condition or medical event and up to 12 weeks of paid family leave to care for a new child or ailing family member. Depending on their earnings, employees will receive up to 90 percent of their wages or up to \$1,000 per week.

EDUCATION

K-12 enhancements. With the focus on students safely returning to in-person learning, policymakers began exploring enhancements to the K-12 education system. In 2021, the Governor signed a biennial budget that added \$303 million in state funding for new policy investments for public schools. These enhancements funded additional school counselors, learning recovery, student devices and connectivity, while bolstering support for continued programs as well.

The enacted 2021 supplemental budget, contained major stabilization investments for public schools for both enrollment and pupil transportation. Included were ongoing costs to meet the state's obligation to fully fund public schools. Additionally, over \$330 million in federal funding went toward learning loss sub-grants.

Early learning and child care. The budgets for the 2021–23 biennium include nearly \$691 million of new investments in early learning. That includes \$25 million to add spaces in the Early Childhood Education and Assistance Program, the state's preschool program for children from low-income families. More than 500 slots were added for the 2021–22 school year and another 750 slots were added for the 2022–23 school year. In addition, nearly \$222 million of new investments were made in Working Connections Child Care (WCCC), which provides a child care subsidy for low-income families who work or participate in education or job training activities. WCCC investments included funding to expand the income eligibility threshold, reduce co-payments for families, and increase subsidy base rates for providers.

Higher education. The Legislature boosted higher education funding by \$437 million during the 2021 legislative session. The State Board for Community and Technical Colleges (SBCTC) received \$10 million of ongoing funding to continue expanding incumbent worker training to serve students in the Job Skills Program. The University of Washington received \$40 million to support operations and teaching activities at Harborview Medical Center and the University of Washington Medical Center.

SBCTC also received \$15.8 million to implement legislation providing for equity and access in the community and technical colleges. This includes developing diversity, equity, and inclusion (DEI) strategic plans for all community and technical college campuses, converting 200 part-time faculty positions to full-time, and establishing a mental health counselor pilot grant program. In addition, a total of \$2 million was provided to all public state higher education institutions to implement legislation requiring DEI campus climate assessments and anti-racism training, including student training and professional development for faculty and staff.

ENVIRONMENT AND ENERGY

Reduce carbon pollution. In 2021, Washington made significant progress in enacting legislation necessary to meet its updated targets to reduce greenhouse gas emissions by 95 percent below 1990 levels by 2050. Starting January 1, 2023, the state Climate Commitment Act (CCA) will establish a cap-and-invest program for reducing carbon emissions from industrial facilities, certain fuel suppliers, in-state electrical generators, electricity importers, and natural gas distributors with annual greenhouse gas emissions over 25,000 metric tons. This program will replace the state's 2017 clean air rule on major emitters of greenhouse gases which was on hold pending legal appeals. The CCA is anticipated to generate \$220 million in the 2021–23 biennium which can be used for clean energy transition and assistance, clean transportation, and climate resiliency projects.

Washington also joined California, Oregon, and British Columbia in adopting a clean fuel standard. This standard requires transportation fuel suppliers to gradually reduce the carbon intensity of transportation fuels to 20 percent below 2017 levels by 2038. This program will begin in January 2023.

In the previous two years, the Legislature passed a suite of legislation to cut greenhouse gas emissions. Washington is now required to have 100 percent clean electricity by 2045. The state imposed new standards for more energy-efficient buildings and appliances. Washington also joined other states in adding requirements to phase down greenhouse gases that potentially contribute to global warming, such as hydrofluorocarbons and perfluorocarbons used in air conditioners and appliances. In addition, the state updated the state motor vehicle emission standards to correspond with California's Zero Emission Vehicle Program.

While attending the Paris Climate Conference in December 2015, Governor Inslee announced a commitment to double the state's electric vehicle deployment in the state fleet to 20 percent. In 2019, he established the goal of 50 percent electric vehicles for the state fleet by 2020. To date, the state has exceeded the goal for new vehicle acquisitions, with zero emission vehicles comprising almost 30 percent of new purchases since the announcement.

The Governor is a founding chair of the U.S. Climate Alliance, a bipartisan coalition of 17 states that stepped up to ensure the United States makes progress on the Paris Climate Agreement. Washington continues this work with its partners in the Pacific Coast Collaborative, a West Coast initiative for climate action and leadership, as well as with dozens of states and regions around the world whose leaders signed the Under 2 MOU, a global commitment to shrink greenhouse gas emissions.

Promoting environmental justice. Legislation was enacted in 2021 to help eliminate environmental and health disparities in communities of color, indigenous communities and economically disadvantaged communities. This law requires select state agencies (Departments of Health, Ecology, Natural Resources, Commerce, Agriculture, and Transportation) to conduct environmental justice assessments on certain agency actions and to incorporate environmental justice into agency strategic plans and budgets. An environmental justice council is also established to advise state agencies on implementation of this law, as well as on the Climate Commitment Act.

Wildland firefighting and forest health. Driven by drought and exacerbated by climate change, Washington has seen a dramatic increase in wildland fires. The 2020 fire season was Washington's second largest resulting in the burning of more than 842,000 acres. Smoke from these fires blanketed much of the state for weeks in September 2020 impacting public health. The state has set a goal of treating more than 1.25 million acres over 20 years to restore forest health and to reduce wildfire risk. To address these issues, the Legislature enacted legislation and provided \$130 million in the 2021–23 biennium and \$95 million in ongoing funding to improve wildfire response, forest restoration, and community resilience.

Emergency food assistance. In response to the ongoing COVID-19 pandemic and sustained high rates of food insecurity, the state provided an additional \$20 million in fiscal year 2021 to purchase emergency food and personal protective equipment. The supplies were distributed to over 500 hunger relief organizations working to reduce food insecurity for approximately 2.2 million children and adults in 2020 and 2021.

The 2021–23 operating budget enhances food security with \$70 million in federal stimulus funding. Of this funding, \$25 million expands the capacity of the state's Emergency Food Assistance Program and \$45 million is dedicated to a new Farmers to Families Food Box Program to directly connect distribution of products from farmers to hunger relief organizations. Food system resiliency is enhanced with \$9 million to bolster food supply chains; \$8 million to support market access programs for women, minorities, and small businesses; and \$5 million to connect farmers with schools to provide local, fresh food to students.

TRANSPORTATION

Construction. The Alaskan Way Viaduct Replacement Program completed the viaduct demolition and Battery Street Tunnel decommissioning. The AWV project team also awarded the last major contract — the South Access Surface Street project. In addition, the North Spokane Corridor phase 1 contract was awarded,

and design occurred on a significant number of fish barrier removal projects to prepare transportation projects to begin construction in the 2021–23 biennium.

Ferries/terminals. The new Mukilteo terminal was completed, and the former terminal has been removed. Work continues on the Seattle Colman terminal which reached an important milestone in completing installation of all of the precast concrete panels. The project is estimated to be completed in 2023.

Ferries/vessels. In addition to the ongoing preservation work on vessels, work continues on design of the first hybrid electric ferry. Additionally, work continues on design to convert a Jumbo Mark II to a hybrid electric vessel. Hybrid electric vessels reduce diesel consumption by 95 percent when supported by charging facilities at the terminal.

Other. Like many state agencies, local governments, and other organizations, the Washington State Department of Transportation experienced challenges due to COVID-19, including some delay in construction, supply shortages, and equipment and program delivery delays resulting in underspending. Despite these obstacles, the agency continued to deliver while keeping employees safe.

ONE WASHINGTON

One Washington is a transformative program focused on improving and modernizing business processes for the state. This will bring about better financial management and operational efficiencies, make it easier to track agency financial activities, and help leaders make more informed decisions about how money is spent. The team has selected Workday as the enterprise resource planning solution for the state and Deloitte Consulting as the systems integrator to implement the new software statewide.

Work has begun with partners across all state agencies to prepare for Phase 1a and 1b of the Workday implementation to replace the current Agency Financial Reporting System. Together, One Washington and state agency representatives are working to assess Phase 1a systems changes and prepare employees for applicable impacts before the go-live date in fiscal year 2023.

The program is supported by Executive Order 19-04, One Washington: Modernization of State Administrative Business and Systems, which aligns with Governor Inslee's strategic priorities to create a modern work environment while driving innovation and accountability across the state.

RESULTS WASHINGTON

Washington is a recognized national leader in adapting proven industry principles to continually improve state government. Governor Inslee established Results Washington in 2013 to strengthen performance management and continuous improvement throughout state government. Results Washington is a collaborative partner championing the best results for Washington. Aside from partnering with agencies to do work in line with its mission, Results Washington provides a valuable platform for agencies to highlight their work directly with the Governor and staff.

Agency staff are focused on the following:

- Introducing Public Performance Reviews in calendar year 2021. This new approach to public reviews focuses on partnering with state agencies on complex, cross-enterprise projects. The public meetings with Governor Inslee are one milestone in a larger project management process. Because meetings are held virtually, a broader audience can participate than in previous iterations. The Results Washington team has demonstrated a disciplined approach to facilitating, coordinating, and providing project management for this work, including completing charters for each project and ensuring milestones are accomplished.

- Beginning strategic planning efforts in spring 2021 with the goal of developing a statewide performance management platform that integrates continuous improvement (including Lean) and performance management. The goal of the strategic planning effort is to develop a feasible, attainable, and sustainable approach (for Results Washington and agencies – small and large) that is guided by feedback gathered from the Governor's Office, the Office of Financial Management (OFM), agencies, and other partners that is relevant now and into the future. Phased implementation of the updated approach is slated to begin early in calendar year 2022.
- Offering the 10th annual Washington State Government Lean Transformation Conference, which occurred virtually over several days in October and November 2021. The decision to hold the conference virtually was made due to the ongoing public health situation as well as the successful and well-attended 9th annual Lean Transformation conference, which was held virtually for the first time in 2020. The conference provides free continuous improvement-focused learning opportunities for nearly 4,000 participants, mostly state government employees.
- Serving as a liaison between state auditors, executive branch agencies, the Governor's Office, OFM, and the Office of Chief Information Officer (OCIO) on state agency performance audits. The liaison works with audited agencies and OFM or OCIO to provide a joint response to each performance audit. If the State Auditor finds performance gaps and makes recommendations, the coordinated response includes specific agency actions and due dates that the liaison tracks and publishes on Results Washington's website through completion.

More information is available at www.results.wa.gov.

Awards and Acknowledgements

The state of Washington submitted its ACFR for the fiscal year ended June 30, 2020 to the Government Finance Officers Association (GFOA) to be evaluated for the Certificate of Achievement for Excellence in Financial Reporting. The result is still pending. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized ACFR, with contents conforming to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Washington state has received a Certificate of Achievement for the past 33 years. The Office of Financial Management considers this report to be in conformity with the Certificate of Achievement Program requirements, and will submit it to the GFOA.

The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of each state agency. This ACFR reflects the Governor's commitment to the Legislature, the citizens of Washington state, and the financial community to maintain financial statements in conformance with the highest standards of financial accountability.

Sincerely,



David Schumacher
Director