



STATE OF WASHINGTON  
**OFFICE OF FINANCIAL MANAGEMENT**

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December 7, 2023

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 presents Washington state's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2023. The state holds 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. As the cost of internal control should not exceed anticipated benefits, the state's objective is to provide reasonable assurance, rather than an absolute guarantee, that these 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, 2023. 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 8.0 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 of the state, 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 all 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. Forty agency heads are appointed by, and report to, the Governor. Seventy-seven 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 the 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. State operating appropriations in the General Fund are for a single year in the biennium. Operating appropriations in other funds cover either the entire biennium or a single 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

In economic terms, the period in which employment rebounds to its pre-recession peak is called a recovery and the subsequent growth is considered an expansion. Recent economic performance in Washington is tied to the post-COVID recovery expansion. The pandemic's initial impact resulted in a loss of 431,700 non-farm jobs. However, by August 2023, the state experienced a growth in non-farm employment of 539,500 jobs since its lowest point in May 2020. This growth means employment now exceeds pre-pandemic employment by 110,900 jobs.

While employment overall in Washington has been in expansion mode, several large job sectors have yet to return to pre-pandemic levels. As of August 2023, aerospace employment was still down by 11,600 jobs. Aside from the pandemic impact on air travel, the aerospace sector in Washington has had the additional burden of production and airworthiness issues with one of its popular aircraft (737 Max), resulting in delayed deliveries. Retail trade is still 4,000 jobs short as brick-and-mortar stores have struggled to adapt to consumers' growing preference for online shopping. The leisure and hospitality sector is currently lagging by over 7,000 jobs compared to pre-pandemic levels, due to accommodation businesses continuing to experience tepid mid-week (business travel) bookings. While the aerospace issues are likely temporary in nature, the changes affecting both the retailing and the leisure and hospitality sectors may have longer-term consequences.

Washington's jobless rate has matched the national rate during the latter part of the economic expansion, falling below 4.0 percent in the third quarter of 2023. 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, 79 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 current biennium (2023–25), Washington's unemployment rate is projected to increase to 4.7 percent from the current 3.6 percent.

Personal income in Washington is expected to moderate over the next two fiscal years. Real personal income declined 2.0 percent in fiscal year 2022 as federal COVID relief payments ended and households drew down their pandemic savings. As the economy began to expand, real personal income grew 0.2 percent in fiscal year 2023. Real personal income is expected to grow 2.3 percent in fiscal year 2024 and 2.7 percent in fiscal year 2025. In comparison, U.S. real income growth is expected to be 1.1 percent, and 2.2 percent over the next two fiscal years. On a per-capita basis, Washington's real personal income should reach \$63,698 in fiscal year 2025, nearly \$9,200 above the U.S. average.

These gains in Washington's personal income will occur as employment growth trends toward a more moderate rate following the vigorous rebound growth rates of fiscal years 2022 and 2023. Aerospace employment, a traditional driver of Washington's economy, is expected to recover from the 737 Max aircraft and COVID slowdowns with expected increases to 80,400 in fiscal year 2024 and 82,800 in fiscal year 2025. Continued gains in software publishing, online shopping, and other technology sectors, in concert with moderating growth in non-tech enterprises, will result in Washington's total non-farm employment posting a net 1.2 percent increase in fiscal year 2024 and 0.2 percent in fiscal year 2025.

Growth in construction jobs will likely soften during the forecast period as the housing and commercial markets adjust to higher interest rates. While demand for new office space was prompted by burgeoning growth in the technology sectors prior to the pandemic, recent trends toward teleworking have had a negative impact on demand for commercial office space. As a result of these factors, building permits declined 29.9 percent in fiscal year 2023. Over the next two fiscal years as interest rates begin to moderate, and as

teleworking policies reach some form of equilibrium, building permits should ease upwards advancing 0.6 percent in fiscal year 2024 and 4.6 percent in fiscal year 2025. As a result, construction employment should grow 1.3 percent in fiscal year 2024 and then decline 1.2 percent in fiscal year 2025.

General Fund-State (GF-S) revenues grew 11.3 percent in fiscal year 2022 and 3.2 percent in fiscal year 2023. GF-S revenues are expected to grow 0.9 percent in fiscal year 2024 and 2.7 percent in fiscal year 2025. The expanding economy, continued hiring, advancing personal income, and a rebound of growth in consumer spending should result in steady state revenue growth.

## Major Initiatives

### HOUSING/HOMELESSNESS

In recent years, Governor Inslee and the Legislature made unprecedented investments in a wide range of efforts to reduce homelessness and address the state's growing housing shortage. The final 2023–25 operating and capital budgets build on that progress with more than \$1 billion in new investments.

Through April 2023, nearly 700 people who had been living in encampments on state rights of way have transitioned into shelters or housing. That figure is projected to top 900 by the end of June. The final 2023-25 budget includes an additional \$60 million, bringing the total to \$150 million, that will continue to help provide stable, safe housing for people residing in rights of way and other encampments over the next two years.

The budget funds the new Covenant Homeownership Program that will start to address harms caused by Washington's history of racially restrictive housing covenants. The program, supported by a \$100 fee on certain documents recorded with counties, will help hundreds of families from marginalized groups become homeowners over the next two years.

The budget also includes significant funding to maintain existing services, including more than \$100 million to continue providing emergency housing and shelter for about 2,000 individuals.

The capital budget provides nearly \$590 million to increase the state's supply of affordable housing, with a record \$400 million dedicated to the state's Housing Trust Fund. In total, the capital budget will add about 3,850 new housing units over the next two years and another 11,150 units over the next three biennia. The budget will also preserve about 1,000 existing affordable housing units in the 2023-25 biennium.

Additionally, about 12,000 affordable housing units will benefit from reduced connection costs to local water, sewer, and stormwater systems through the Connecting Housing to Infrastructure state grant program.

### BEHAVIORAL HEALTH

Over the past five years, the state made significant efforts to transform Washington's behavioral health system. The new operating and capital budgets provide significant investments to continue those efforts. The capital budget includes more than \$600 million that will go toward construction of a new 350-bed forensic hospital on the Western State Hospital campus. Additionally, the operating budget provides funds to enhance staffing and to support initiatives aimed at violence reduction and prevention in our state hospitals. Funding is also included to continue community policing programs near Western and Eastern State hospitals.

The budgets provide additional funding to continue expanding capacity for treating patients in community settings closer to their homes. There is funding for a new civil commitment facility in Stanwood and a 48-bed residential treatment facility in Vancouver. The budget also provides funding for the state to contract for 60 beds to provide behavioral health and stabilization services for misdemeanor and lower-level felony cases from the forensic admission wait list. The budget also includes funding for the Department of Social and Health Services (DSHS) to open or expand five cottages at Maple Lane near Rochester.

The operating budget includes \$81 million to implement phases 2 and 3 of the Trueblood v. DSHS lawsuit settlement agreement. The agreement requires the state to invest in resources for competency evaluation, competency restoration, Forensic Housing and Recovery through Peer Services teams, the Forensic Projects for Assistance in Transition from Homelessness program, crisis diversion and supports, education, and training and workforce development. The purpose is to more quickly evaluate people's competency to stand trial or prepare them for trial.

The budget provides funding for additional forensic navigators, clinical intervention specialists, siting work, court monitors, and medication reimbursement. It also funds a new pilot program on diversion services. These services will facilitate better mental health access for individuals in need.

The budget emphasizes key investments to aid the state's mental health workforce, which faces a soaring demand for services. This includes more than \$182 million in state funds for a variety of rate increases for community partners providing behavioral health services.

The budget has \$81 million to increase opioid treatment and prevention services. There are investments in the statewide behavioral health crisis response (988) system, including mobile crisis response teams and community-based crisis teams. New funding is provided to operate seven crisis stabilization facilities, with 93 beds coming online over the next two years.

The budget includes funding to phase in the Children's Long-term Inpatient Program (CLIP) slots up to 72 beds by June 2024. There is also a rate increase for CLIP bed providers.

## **LAW ENFORCEMENT**

The operating and capital budgets include a combined \$17 million to build and staff three new regional criminal justice training academies. These academies will enable local law enforcement agencies to expedite the training of new recruits in locations closer to their communities. The funding will also enable the state to train 180 more recruits each year and reduce training wait times.

## **CLIMATE IMPLEMENTATION AND FUNDING**

The state of Washington continues to prioritize environmental efforts. In recent years, the governor and legislators have passed historic, nation-leading policies related to clean energy, clean transportation, clean buildings, and a cap on climate pollution. The state launched a new cap-and-invest program earlier this year, and invests more than \$2.1 billion in the 2023-25 biennium for a range of climate-related investments including charging infrastructure, electric ferries and trucks, community-driven grants to improve air quality in overburdened communities, and assistance for lower-income households to transition to heat pumps.

Overburdened communities, which typically have significantly worse air quality and are impacted more by environmental challenges, such as wildfire smoke and flooding, will receive a total of \$140 million in aid. This includes \$25 million to improve air quality, \$10 million to support the health and safety of workers impacted by climate change, and nearly \$39 million to help five overburdened communities develop and invest in priority actions to mitigate disproportionate impacts of climate change.

Clean energy development was enhanced with \$135 million, and \$68 million was allocated to accelerate siting of clean energy production and transmission projects needed for the state to meet its carbon emission reduction goals.

Building upon the Move Ahead Washington package, the state allocated \$967 million from the Climate Commitment Act funding to clean transportation projects. This includes \$406 million for transit projects and grants, \$157 million for active transportation projects, \$74 million to convert two existing ferries to hybrid

electric and electrify terminals, and \$120 million for incentives to convert medium and heavy-duty trucks and school buses to electric.

A total of \$549.8 million was provided to reduce emissions from buildings, including \$286 million in state and federal funds to help low-income households weatherize and electrify their homes through the Home Efficiency Rebate Program and to reduce their energy costs.

Finally, \$699 million was invested to improve climate resiliency, including \$83 million to boost carbon sequestration on state trust lands, \$50 million for tribal climate adaptation grants, \$41 million to incorporate climate goals in local land-use planning, and \$30 million for grants to farmers for anaerobic digesters and other practices that reduce greenhouse gas emissions.

## **SALMON**

Salmon play a vital role in our state's ecosystem and economy. The state invests \$808 million in the 2023-25 operating, capital, and transportation budgets to implement the state's salmon recovery strategy, supporting habitat restoration and other recovery efforts. A central focus of this strategy is the protection and restoration of riparian areas, the green zones bordering rivers and streams. To this end, the state has allocated \$50 million in new grant funding specifically for these areas, as well as \$2 million for outreach and education to landowners on the importance of riparian protection.

Additionally, the state appropriated \$270 million for broader salmon restoration projects and fish passage barrier correction grants, as well as \$44 million in state and federal funding for the Duckabush estuary restoration project.

## **EDUCATION**

Overall spending for K-12 education will increase in the 2023-25 biennium by \$2.9 billion, the largest investment since the McCleary court decision. Besides boosting K-12 education salaries, the budget adds \$365 million in new spending for special education and continues funding for additional nurses, counselors, and social workers in schools. The budget also includes funding to expand access to free meals for thousands more students.

## **EARLY LEARNING**

The budget includes nearly \$80 million to continue the efforts to improve and expand the state's Early Childhood Education and Assistance Program (ECEAP), with the goal of providing high quality early learning opportunities for more children across the state. To support this goal, the budget addresses rate increases for ECEAP providers. Increases include 18 percent for school day (6-hour) slots, 9 percent for working day (10-hour) slots, and 7 percent for part-day (3-hour) slots. These adjustments are intentionally directed toward the preschool slots most in demand by families. Additionally, the budget introduces 1,000 school day slots over the forthcoming two years, which will help build the capacity needed to meet the state's ECEAP entitlement in the 2026-27 school year.

## **ADDRESSING WORKFORCE CHALLENGES**

Like many public and private employers here and across the country, Washington state agencies have faced growing difficulties in recruiting and retaining workers. These workforce challenges, in turn, influenced the state's ongoing efforts to ensure public and employee safety and to provide vital services.

The 2023–25 budget funds new collective bargaining agreements that will provide most state employees with a 4 percent general wage increase on July 1, 2023, and a 3 percent increase on July 1, 2024. Many state employees will also receive a “recognition and retention” lump sum payment. They can also earn a \$1,000

incentive by providing verification of their up-to-date status on COVID-19 vaccinations, which includes any CDC-recommended boosters at the time of verification.

Moreover, the budget includes additional increases designed to address recruitment and retention challenges. These include targeted increases for hard-to-fill positions across state government, premium pay for nurses and employees assigned to facilities that provide direct care to residents or patients, and increases to shift premiums for employees who work hard-to-fill shifts.

The budget also funds new agreements — reached through interest arbitration — with unions representing some state prison workers. These agreements advocate for more substantial general wage raises and other specialized increments.

State ferry workers will also see larger general wage increases under the new budget, with raises of 4 percent or greater for each of the next two years.

Lastly, this budget funds new labor agreements with unions representing more than 6,500 publicly-funded, nonstate employee groups. It includes rate increases for adult family home providers and family childcare providers, as well as compensation increases for language access providers who support state Medicaid and social service beneficiaries.

## **RESULTS WASHINGTON**

Founded in 2013 within the Office of the Governor, Results Washington integrates performance management, continuous improvement, and cross-agency collaboration to achieve key goals and improve government effectiveness. Results Washington is a collaborative partner championing the best results for the great state of Washington. Results Washington supports the governor's five goals to achieve world-class education; a prosperous economy; sustainable energy and a clean environment; healthy and safe communities; and efficient, effective, and accountable government.

Key activities of fiscal year 2023:

- In October 2022, Results Washington hosted the 11th Annual Lean Transformation Conference virtually, which provided free continuous improvement-focused learning opportunities to over 4,300 participants, comprised primarily of state government employees. The conference also welcomed participants from across the country.
- Hosted Governor Inslee's Public Performance Reviews. This year, the focus was intentionally widened to address inequities that exist in state government by engaging with agencies who work closely with communities that are impacted by state policies.

More information is available at: [Results Washington](#).

## **Awards and Acknowledgements**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Washington for its ACFR for the fiscal year ended June 30, 2022. 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.

## State of Washington

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A Certificate of Achievement is valid for a period of one year only. Washington state has received a Certificate of Achievement for the past 36 consecutive 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,

A handwritten signature in black ink, appearing to read "D. Schumacher", with a long horizontal flourish extending to the right.

David Schumacher  
Director