

MD&A
Management's Discussion and Analysis

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MD&A

Management's Discussion & Analysis

As managers of the state of Washington, we offer this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2019. We present this information in conjunction with the information included in our letter of transmittal, which can be found preceding this narrative, and with the state's financial statements, which follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- Total assets and deferred outflows of the state of Washington exceeded its liabilities and deferred inflows by \$26.71 billion (reported as net position). Of this amount, \$(12.89) billion was reported as "unrestricted net position." A negative balance indicates that no funds were available for discretionary purposes.
- The state of Washington's governmental funds reported a combined ending fund balance of \$19.53 billion, a decrease of 0.3 percent compared with the prior year.
- The state's capital assets increased by \$817.2 million, total bond debt increased by \$69.0 million, and the state's net investment in capital assets is \$23.17 billion.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the state of Washington's basic financial statements, which include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The focus is on both the state as a whole (government-wide) and the major individual funds. The dual perspectives allow the reader to address relevant questions, broaden the basis for comparison (year-to-year or government-to-government), and enhance the state's accountability.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the state of Washington's finances, in a manner similar to a private sector business.

Statement of Net Position. The Statement of Net Position presents information on all of the state of Washington's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the state of Washington is improving or deteriorating.

Statement of Activities. The Statement of Activities presents information showing how the state's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The Statement of Activities is focused on both the gross and net cost of various activities (including governmental, business-type, and component unit). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.

Both of these government-wide financial statements distinguish functions of the state of Washington that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The governmental activities of the state of Washington include education, human services, transportation, natural resources, adult corrections, and general government.

The business-type activities of the state of Washington include the workers' compensation and unemployment compensation programs, and various higher education student services such as housing and dining.

FUND FINANCIAL STATEMENTS

A fund is a group of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The state of Washington, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the state can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on fund balances at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for three major funds and an aggregate total for all nonmajor funds. The state's major governmental funds are the General Fund, Higher Education Special Revenue Fund, and the Higher Education Endowment Fund. Individual fund data for the state's nonmajor governmental funds are provided in the form of combining statements elsewhere in this report.

Proprietary Funds. The state of Washington maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds represent an accounting device used to accumulate and allocate costs internally among the state of Washington's various functions. The state of Washington uses internal service funds to account for general services such as motor pool, data processing services, risk management, and employee health insurance. Because internal service funds predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial

statements, but in greater detail. The proprietary fund financial statements provide separate information for the Workers' Compensation Fund, Unemployment Compensation Fund, and the Higher Education Student Services Fund, which are considered to be major funds, as well as an aggregated total for all nonmajor enterprise funds.

The internal service funds are combined for presentation purposes. Individual fund data for the state's nonmajor proprietary funds are provided in the form of combining statements elsewhere in this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the state of Washington's own programs. Washington's fiduciary funds include state administered pension plans. The accounting used for fiduciary funds is much like that used for proprietary funds. Individual fund data for the state's fiduciary funds are provided in the form of combining statements elsewhere in this report.

Component Units. Component units that are legally separate from the state and primarily serve or benefit those outside the state are discretely presented. They are either financially accountable to the state or have relationships with the state such that exclusion would cause the state's financial statements to be misleading or incomplete. The state discretely reports three major component units: the Valley Medical Center, the Washington State Public Stadium Authority, and the Health Benefit Exchange, as well as four nonmajor component units.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

OTHER INFORMATION

This report also presents required supplementary information on budgetary comparisons, pension plans and other postemployment benefits information, and infrastructure assets reported using the modified approach.

The combining statements referred to earlier are presented immediately following the required supplementary information.

STATE OF WASHINGTON
Statement of Net Position
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
ASSETS						
Current and other assets	\$ 31,459	\$ 30,477	\$ 28,340	\$ 27,237	\$ 59,799	\$ 57,714
Capital assets	41,781	41,044	3,415	3,336	45,196	44,380
Total assets	73,240	71,521	31,755	30,573	104,995	102,094
DEFERRED OUTFLOWS OF RESOURCES	1,459	1,108	200	171	1,659	1,279
LIABILITIES						
Current and other liabilities	6,138	5,910	1,091	1,167	7,229	7,077
Long-term liabilities outstanding	34,827	35,986	34,179	33,532	69,006	69,518
Total liabilities	40,965	41,896	35,270	34,699	76,235	76,595
DEFERRED INFLOWS OF RESOURCES	3,322	1,819	386	189	3,708	2,008
NET POSITION						
Net investment in capital assets	22,261	21,749	911	847	23,172	22,596
Restricted	11,358	11,328	5,068	4,825	16,427	16,153
Unrestricted	(3,207)	(4,163)	(9,679)	(9,816)	(12,886)	(13,979)
Total net position	\$ 30,412	\$ 28,914	\$ (3,700)	\$ (4,144)	\$ 26,712	\$ 24,770

Note: The 2018 amounts presented here have not been restated for prior period adjustments. Complete information necessary to fully restate the 2018 amounts was not available. Refer to Note 2 Accounting, Reporting, and Entity Changes.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the state of Washington, total assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$26.71 billion at June 30, 2019, as compared to \$24.77 billion as reported at June 30, 2018.

The largest portion of the state's net position (86.7 percent for fiscal year 2019 as compared to 91.2 percent for fiscal year 2018) reflects its net investment in capital assets (e.g., land, buildings, equipment, and intangible assets) less any related debt used to acquire those assets that is still outstanding. The state of Washington uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the state of Washington's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the state of Washington's net position (61.5 percent for fiscal year 2019 as compared to 65.2 percent for fiscal year 2018) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$(12.89) billion represents unrestricted net position. The state's overall negative balance in unrestricted net position is largely due to deficits in business-type activities.

In governmental activities, net position increased from \$28.91 billion in fiscal year 2018 to \$30.41 billion in fiscal year 2019. The increase reflects increases in investment earnings and tax revenues that outpaced the increases in expenses.

In business-type activities, the deficit is caused by the workers' compensation program that provides time-loss, medical, disability, and pension payments to qualifying individuals who sustain work-related injuries or develop occupational diseases as a result of their required work activities.

The main benefit plans of the workers' compensation program are funded on rates that will keep the plans solvent in accordance with recognized actuarial principles.

State of Washington

The supplemental pension cost-of-living adjustments (COLAs) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

As previously mentioned, the state's activities are divided between governmental and business-type. The majority of support for governmental activities comes from taxes and intergovernmental grants, while business-type activities are supported primarily through user charges.

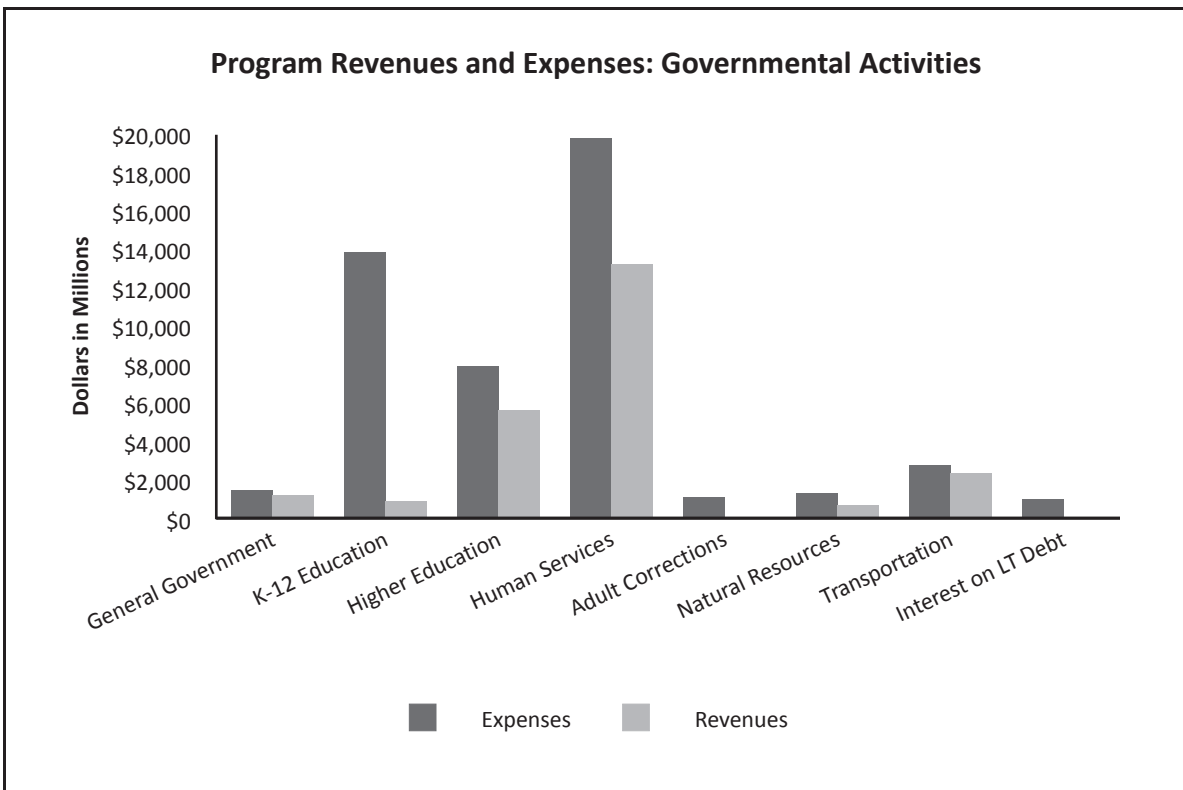
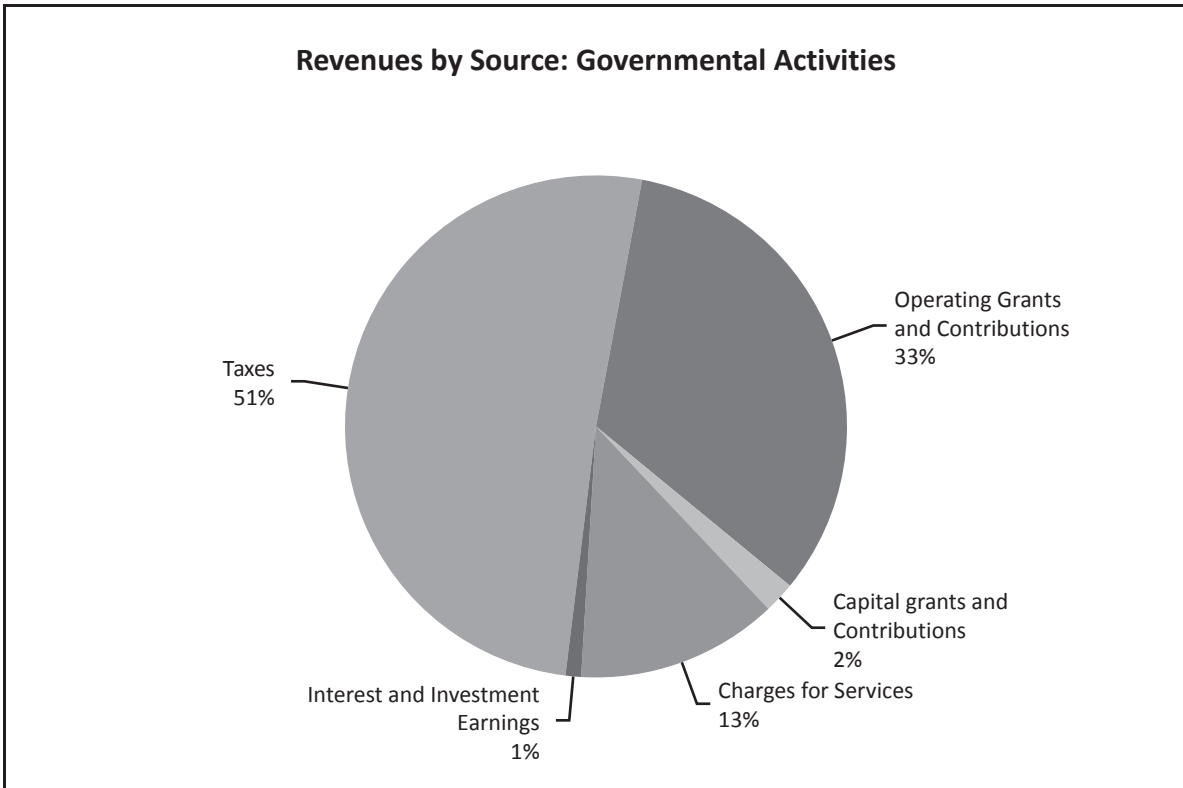
STATE OF WASHINGTON						
Changes in Net Position						
<i>(in millions of dollars)</i>						
	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
REVENUES						
Program revenues:						
Charges for services	\$ 6,772	\$ 7,170	\$ 8,343	\$ 7,920	\$ 15,116	\$ 15,090
Operating grants and contributions	16,728	16,120	65	66	16,793	16,186
Capital grants and contributions	807	973	1	—	808	973
General revenues:						
Taxes	26,012	24,863	22	23	26,034	24,886
Interest and investment earnings (loss)	646	561	1,681	502	2,327	1,063
Total revenues	<u>50,964</u>	<u>49,688</u>	<u>10,112</u>	<u>8,510</u>	<u>61,077</u>	<u>58,198</u>
EXPENSES						
General government	(1,491)	(1,687)	—	—	(1,491)	(1,687)
Education - K-12	(13,872)	(12,012)	—	—	(13,872)	(12,012)
Education - Higher education	(7,985)	(7,662)	—	—	(7,985)	(7,662)
Human services	(19,822)	(18,863)	—	—	(19,822)	(18,863)
Adult corrections	(1,142)	(1,067)	—	—	(1,142)	(1,067)
Natural resources and recreation	(1,351)	(1,184)	—	—	(1,351)	(1,184)
Transportation	(2,809)	(2,485)	—	—	(2,809)	(2,485)
Interest on long-term debt	(1,032)	(1,002)	—	—	(1,032)	(1,002)
Workers' compensation	—	—	(3,975)	(3,690)	(3,975)	(3,690)
Unemployment compensation	—	—	(963)	(935)	(963)	(935)
Higher education student services	—	—	(3,330)	(3,119)	(3,330)	(3,119)
Other business-type activities	—	—	(1,169)	(918)	(1,169)	(918)
Total expenses	<u>(49,504)</u>	<u>(45,962)</u>	<u>(9,437)</u>	<u>(8,662)</u>	<u>(58,941)</u>	<u>(54,624)</u>
Excess (deficiency) of revenues over expenses before contributions						
to endowments and transfers	1,460	3,726	676	(152)	2,136	3,574
Contributions to endowments	152	109	—	—	152	109
Transfers	217	152	(217)	(152)	—	—
Increase (decrease) in net position	1,828	3,986	459	(304)	2,288	3,683
Net position - July 1, as restated	<u>28,584</u>	<u>24,928</u>	<u>(4,159)</u>	<u>(3,840)</u>	<u>24,424</u>	<u>21,087</u>
Net position - June 30	<u>\$ 30,412</u>	<u>\$ 28,914</u>	<u>\$ (3,700)</u>	<u>\$ (4,144)</u>	<u>\$ 26,712</u>	<u>\$ 24,770</u>

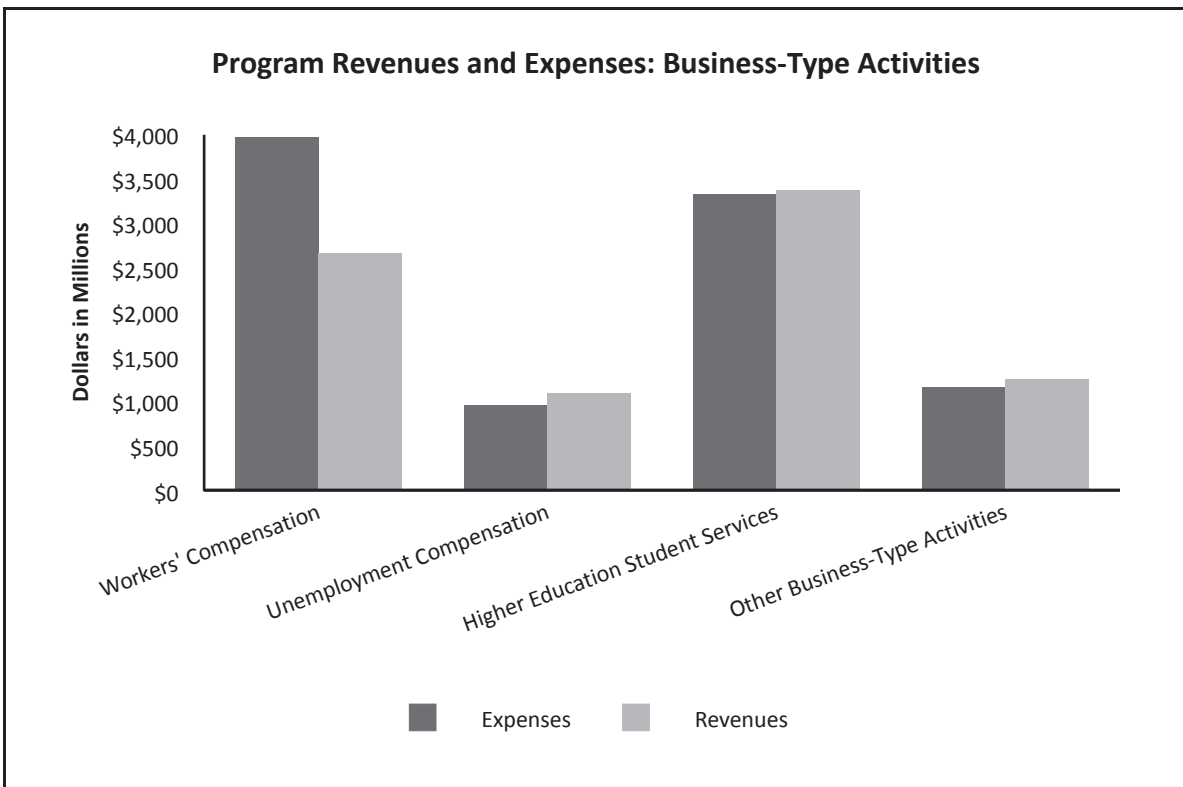
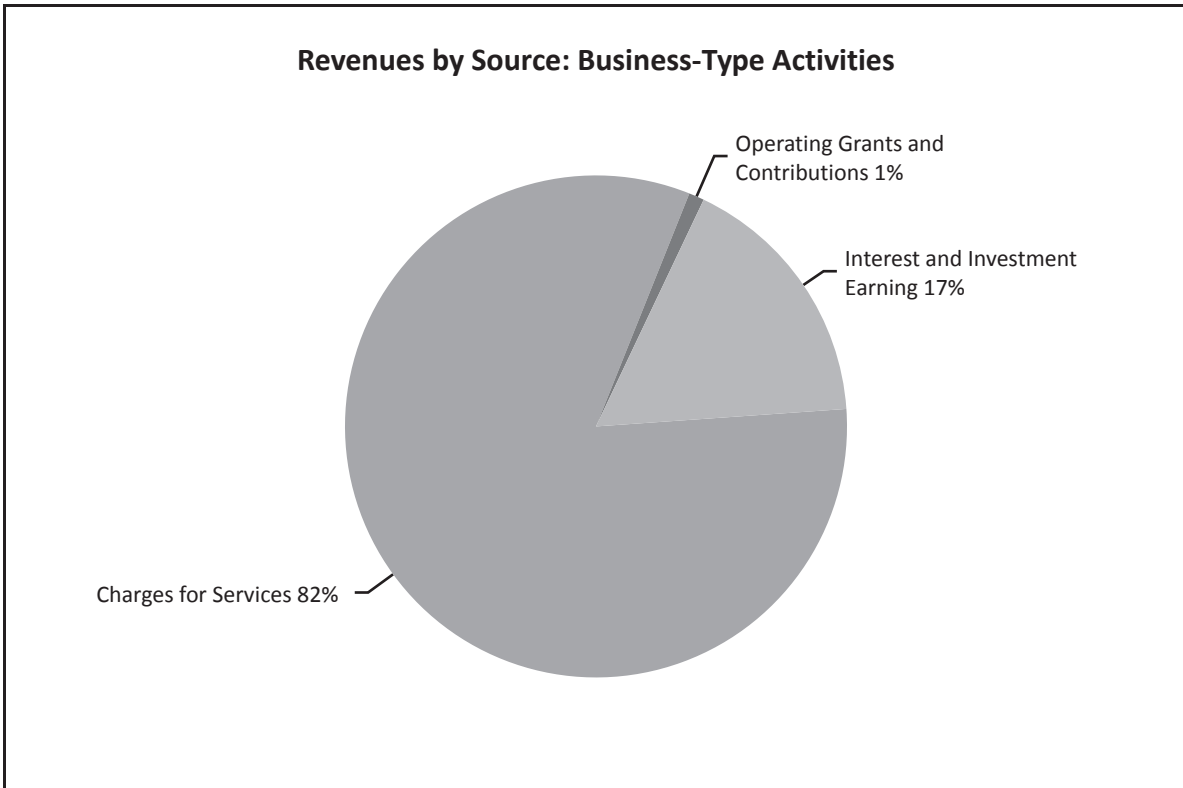
Governmental Activities. Governmental activities resulted in an increase in the state of Washington's net position of \$1.83 billion. A number of factors were in play including increases in tax revenues and spending on K-12 education and human services.

- Tax revenues increased by \$1.15 billion in fiscal year 2019 as compared to fiscal year 2018 reflecting positive growth in the economy. Sales and use tax, which are the main tax revenue for governmental activities, reported an increase of \$952.2 million. Business and occupation tax increased by \$269.2 million. Property tax revenue increased by \$15.5 million as property values continue to rise. Real estate excise tax revenue increased by \$36.0 million. Real estate excise taxes are levied on the sale of real estate.
- Operating grants and contributions grew by \$607.9 million in fiscal year 2019 compared with 2018 and were matched with an increase in human services operating grant expenses.
- Expenses grew by \$1.86 billion for K-12 education in 2019 as compared to fiscal year 2018. This is the State's continued commitment to meet the needs of K-12 education.

Business-Type Activities. Business-type activities increased the state of Washington's net position by \$459.4 million. Key factors contributing to the operating results of business-type activities are:

- The workers' compensation activity increase in net position in fiscal year 2019 was \$147.7 million compared to a decrease of \$654.0 million in fiscal year 2018. Claim costs increased by \$256.6 million in fiscal year 2019 compared with fiscal year 2018, reflecting an increase in the number of time-loss claims. Investment income increased by \$1.20 billion as compared to fiscal year 2018. The workers' compensation portfolio is 84.9 percent debt securities.
- The unemployment compensation activity reported operating income in fiscal year 2019 of \$134.6 million compared to \$144.9 million in fiscal year 2018. Unemployment insurance benefits increased by \$28.1 million in fiscal year 2019 over fiscal year 2018. The unemployment rate for the state for June 2019 was 4.6 percent, a slight increase from June 2018.
- The Higher Education Student Services activities reported relatively proportional increases in both operating revenues and expenses when compared to the prior year.





Financial Analysis of the State's Funds

As noted earlier, the state of Washington uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. As previously discussed, the focus of the state of Washington's governmental funds is to provide information on near-term inflows, outflows, and fund balances. Such information is useful in assessing the state of Washington's financing requirements.

Fund Balances. At June 30, 2019, the state's governmental funds reported combined ending fund balances of \$19.53 billion. Of this amount, \$2.86 billion or 14.6 percent is nonspendable, either due to its form or legal constraints; and \$6.51 billion or 33.4 percent is restricted for specific

programs by external constraints, constitutional provisions, or contractual obligations. An additional \$7.65 billion or 39.2 percent of total fund balance has been committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the Legislature. An additional \$1.52 billion or 7.8 percent of total fund balance has been assigned to specific purposes by management.

The General Fund is the chief operating fund of the state of Washington. The fund balance decreased by \$580.5 million in fiscal year 2019, as compared to a \$1.23 billion gain in fiscal year 2018. Increased revenues from taxes and spending increases in K-12 education and social and health services were the key contributing factors. Assigned fund balance of \$1.42 billion is reported for fiscal year 2019 and relates to certain accrued and non-cash revenues which are not considered by management to be available for budgetary purposes.

STATE OF WASHINGTON			
General Fund			
<i>(in millions of dollars)</i>			
	Fiscal Year		Difference Increase (Decrease) 2019 - 2018
	2019	2018	
REVENUES			
Taxes	\$ 21,801	\$ 21,244	\$ 557
Federal grants	13,296	13,013	283
Investment revenue (loss)	114	1	113
Other	852	920	(68)
Total	36,063	35,178	885
EXPENDITURES			
Human services	19,754	18,686	1,068
Education	14,762	13,067	1,695
Other	1,710	1,585	125
Total	36,226	33,338	2,888
Net transfers in (out)	(598)	(674)	76
Other financing sources	180	63	117
Net increase (decrease) in fund balance	\$ (581)	\$ 1,229	\$ (1,810)

General Fund expenditures continue to be concentrated in services and programs most vital to citizens – primarily human services and public education.

In addition to the General Fund, the state reports the Higher Education Special Revenue and the Higher Education Endowment Funds as major governmental funds. Significant changes in these funds are as follows:

- The change in fund balance of the Higher Education Special Revenue Fund in fiscal year 2019 was an increase of \$1.10 billion compared to an increase of \$162.3 million in fiscal year 2018.
- The fund balance for the Higher Education Endowment Fund increased by \$271.6 million in fiscal year 2019. The increase is a result of positive growth in investment earnings.

Proprietary Funds. The state of Washington’s proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Significant changes reported in fiscal year 2019 are as follows:

- The Workers’ Compensation Fund reported an increase in net position of \$147.7 million in fiscal year 2019. Operating revenues decreased by \$108.3 million and operating expenses increased by \$285.7 million as compared to fiscal year 2018. Investment income increased \$1.20 billion over fiscal year 2018.
- Washington’s Unemployment Compensation Fund reported an increase in net position of \$242.8 million. While unemployment benefit claims expense increased by \$28.1 million in fiscal year 2019 as compared to 2018, unemployment premiums and assessments increased by \$23.4 million in fiscal year 2019 as compared to 2018. Investment income increased by \$10.2 million over fiscal year 2018. This resulted in net position increasing about the same amount as in fiscal year 2018.
- The Higher Education Student Services Fund and the nonmajor enterprise funds reported consistent activity when compared to the prior year.

General Fund Budgetary Highlights

Differences between the original budget of the General Fund and the final amended budget reflect increases in mandatory costs driven by rising caseloads and school enrollment as well as other high priority needs. Changes to estimates are summarized as follows:

- Estimated biennial resources increased by \$2.98 billion over the course of the biennium. The major increase in estimated resources is additional property tax, sales tax, and federal grants-in-aid.
- Appropriated expenditure authority increased by \$4.07 billion over the course of the biennium to address increases in the state’s mental health, children services programs, and education.

The state did not overspend its legal spending authority for the 2017-19 biennium. Actual General Fund revenues and expenditures were 100.7 and 99.2 percent of final budgeted

resources and appropriations, respectively, for the 2017-19 biennium.

Capital Assets, Infrastructure, and Bond Debt Administration

Capital Assets. The state of Washington’s investment in capital assets for its governmental and business-type activities as of June 30, 2019, totaled \$45.20 billion (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, museum and historical collections, buildings and other improvements, furnishings, equipment, and intangible assets, as well as construction in progress.

Washington’s fiscal year 2019 investment in capital assets, net of current year depreciation, increased \$826.7 million over fiscal year 2018, including increases to the state’s transportation infrastructure of \$508.7 million. The state’s construction in progress includes both new construction and major improvements to state capital facilities and infrastructure. Remaining commitments on these construction projects total \$3.61 billion.

Additional information on the state of Washington’s capital assets can be found in Note 6.

Infrastructure. The state of Washington uses the modified approach for reporting selected infrastructure assets. The modified approach requires that the state meet certain requirements regarding the inventory and maintenance of eligible capital assets, including condition assessments. Under the modified approach, assets are not depreciated and certain maintenance and preservation costs associated with those assets are expensed. Assets accounted for under this approach include approximately 20,815 pavement lane miles, 3,932 bridges and tunnels, and 47 highway safety rest areas. The total count of bridges includes vehicular bridges of all lengths, pedestrian bridges, and tunnels. The count of bridges this year increased because in previous years only vehicular bridges over 20 feet in length were included. Infrastructure asset categories are assessed on a two-year cycle, either on a calendar year or fiscal year basis.

In the past two fiscal years, the state has invested more resources for the preservation and maintenance of pavement, but less for bridges and safety rest areas than was planned.

STATE OF WASHINGTON
Capital Assets - Net of Depreciation
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018 *	2019	2018 *	2019	2018 *
Land	\$ 2,817	\$ 2,767	\$ 74	\$ 71	\$ 2,891	\$ 2,838
Transportation infrastructure and other assets not depreciated	25,685	25,146	5	5	25,690	25,151
Buildings	8,769	8,640	2,848	2,532	11,617	11,172
Furnishings, equipment, and intangible assets	2,209	2,087	174	196	2,383	2,283
Other improvements and infrastructure	1,355	1,363	83	74	1,438	1,437
Construction in progress	946	1,032	231	457	1,177	1,489
Total	\$ 41,781	\$ 41,035	\$ 3,415	\$ 3,335	\$ 45,196	\$ 44,370

*Prior year balances restated for comparability

The state of Washington's goal is to maintain 85 percent of pavements and 90 percent of bridges at a condition level of fair or better. The condition of these assets, along with the rating scales, and additional detail comparing planned to actual preservation and maintenance spending are available in the required supplementary information. In 2018, the Washington State Department of Transportation updated its Capital Assets - Infrastructure Policy to report the average of the three most recent assessment periods, as opposed to just the most recent period.

The most recent pavements condition assessment indicates that 93.2 percent of pavements were in fair or better condition. The condition of pavements has remained steady in the last three assessment periods, averaging 93.1 percent in fair or better condition. For fiscal year 2019, actual maintenance and preservation expenditures were 18.3 percent higher than planned; however, over the past five fiscal years, the actual expenditures were 1.8 percent lower than planned.

The most recent condition assessment of bridges over 20 feet in length indicates that 92.9 percent of bridges were in good or fair condition. The condition of bridges has remained steady over the last three assessment periods, averaging 92.3 percent in good or fair condition. For fiscal year 2019, the actual maintenance and preservation expenditures were 19.5 percent lower than planned, and over the past five fiscal years, the actual expenditures were 14.9 percent lower than planned.

Bond Debt. At the end of fiscal year 2019, the state of Washington had general obligation bond debt outstanding including accreted interest and issuance premiums of \$19.73 billion, an increase of 0.6 percent from fiscal year 2018. This

debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized \$15.75 billion general obligation debt that remains unissued.

General obligation debt is subject to the limitation prescribed by the state Constitution. The aggregate debt contracted by the state as of June 30, 2019, does not exceed that amount for which payments of principal and interest in any fiscal year would require the state to expend more than 8.3 percent of the arithmetic mean of its general state revenues for the six immediately preceding fiscal years. The arithmetic mean of its general state revenues for fiscal years 2013-2018 is \$18.31 billion. The debt service limitation, 8.3 percent of this mean, is \$1.51 billion. The state's maximum annual debt service as of June 30, 2019, subject to the constitutional debt limitation is \$1.19 billion, or \$316.0 million less than the debt service limitation.

For further information on the debt limit, refer to Schedule 11 in the statistical section of this report or the Report on the State of Washington's Debt Limitation, available from the Office of the State Treasurer at <https://tre.wa.gov/wp-content/uploads/Debt-Limit-Certification-2019-final.pdf>.

By statutory provision, the State Finance Committee (SFC) is authorized to supervise and control the issuance of all state bonds, notes, or other evidences of indebtedness. The SFC is composed of the Governor, Lieutenant Governor, and State Treasurer, the latter serving as chairperson.

As of June 30, 2019, the state of Washington's general obligation debt was rated Aa1 by Moody's Investor Service, AA+ by Standard & Poor's Rating Group, and AA+ by Fitch Ratings.

STATE OF WASHINGTON

Bond Debt

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
General obligation (GO) bonds	\$ 19,333	\$ 19,181	\$ —	\$ —	\$ 19,333	\$ 19,181
Accreted interest on zero interest rate GO bonds	401	433	—	—	401	433
Revenue bonds	2,188	2,297	2,137	2,141	4,325	4,438
Unamortized premium on bonds sold	1,798	1,731	180	185	1,978	1,916
Total	\$ 23,720	\$ 23,642	\$ 2,317	\$ 2,326	\$ 26,037	\$ 25,968

The state had revenue debt outstanding at June 30, 2019, of \$4.33 billion, a decrease of \$112.9 million over fiscal year 2018. The decrease is primarily related to the state colleges and universities not issuing as many revenue bonds as in prior years. This debt is not supported or intended to be supported by the full faith and credit of the state. Revenue bond debt is generally secured by specific sources of revenue. The exceptions are the University of Washington and Washington State University which issue general revenue bonds that are payable from general revenues of each university.

General obligation and revenue bonds totaling \$227.9 million were refunded during the year. Washington's refunding activity produced \$71.1 million in gross debt service savings.

Additional information on the state's bond debt obligations is presented in Note 7.

Conditions with Expected Future Impact

Economic Outlook. Washington is well positioned for economic and population expansion. The state has a diverse industrial and environmental base that supports trade with Pacific Rim countries as well as knowledge-based industries including information technology, health, business, and financial services. Washington's expanding economy, accelerated gains in hiring, and strong housing markets have had a positive effect on revenue growth. Further economic growth and a continued expansion in the housing and commercial building markets should keep revenues growing at a sound pace.

Rainy Day Account. In November 2007, Washington state voters ratified Engrossed Substitute Senate Joint Resolution 8206, amending the Washington Constitution and establishing the Budget Stabilization Account (BSA). The state's Constitution details a limited number of circumstances under which funds can be appropriated from the BSA, one of which is a favorable vote of at least three-fifths of the members of each house of the Legislature.

On June 30, 2019, \$1.87 billion was transferred to the BSA from the General Fund in accordance with the provisions of the Constitution. During fiscal year 2019, by three-fifths vote of each house, the Legislature appropriated \$64.8 million from the BSA for additional state expenditures, emergency fire service mobilization, fire suppression, and fire damage recovery costs. In addition, the Legislature transferred \$462.6 million of extraordinary revenue growth to the pension stabilization account to be used only for the cost of state employer contributions to state pension systems. The BSA had a fund balance of \$1.62 billion as of June 30, 2019.

Requests for Information

This financial report is designed to provide a general overview of the state of Washington's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Financial Management, Accounting Division, P.O. Box 43127, Olympia, WA 98504-3127.