



STATE OF WASHINGTON
OFFICE OF FINANCIAL MANAGEMENT

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December 20, 2022

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, 2022. 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, 2022. 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 7.9 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 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. 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 tied to the recovery from earlier 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 431,700 non-farm jobs. As of August 2022, non-farm employment had rebounded by 472,900 jobs, surpassing pre-pandemic employment by 41,200 jobs. Because the pandemic was a public health crisis with serious economic consequences, as opposed to the more typical economic recession with public health consequences, the pattern of recovery has been without precedent. After the initial job losses during the Great Recession, it took 69 months to return to the prior job peak. The recovery from the recent downturn took 28 months, a shorter recovery than the 1969, 1981, 2000, and 2008 recessions. Despite the shorter duration than the prior recoveries, the number of permanent job losses, labor force exits, and permanent business closures may have longer-term consequences.

Washington's jobless rate has matched 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, 77 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 (2023–25), Washington's unemployment rate is projected to increase to 4.9 percent from the current 3.7 percent.

Personal income in Washington is expected to moderate over the next two fiscal years. Concerted efforts to provide pandemic relief funds to individuals and households boosted fiscal year 2020 real personal income by 5.5 percent and fiscal year 2021 real personal income by 5.6 percent. Real personal income declined 1.7 percent in fiscal year 2022 as federal COVID relief payments ended and households drew down their pandemic savings. Real personal income is expected to grow 0.1 percent in fiscal year 2023 and 2.1 percent in fiscal year 2024. In comparison, U.S. real income growth is expected to be -2.0 percent, 0.0 percent, and 1.5 percent, respectively. On a per-capita basis, Washington's real personal income should reach \$60,854 in fiscal year 2024, nearly \$7,100 above the U.S. average.

These gains in Washington's personal income will occur as employment growth trends towards 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 and COVID slowdowns with expected increases from 68,000 to 72,400 in fiscal year 2023 and 74,100 in fiscal year 2024. Continued gains in software publishing, electronic shopping and mail order, and other technology sectors, will result in Washington total nonfarm employment posting a net 3.0 percent increase in fiscal year 2023 and 0.5 percent in fiscal year 2024.

Growth in construction jobs will likely soften during the forecast period as the housing market and commercial markets weaken. While demand for new office space was prompted by burgeoning growth in the technology sectors prior to the pandemic, recent trends towards teleworking have had a negative impact on demand for commercial office space. Building permits are expected to decline 20.2 percent in fiscal year 2023 and another 1.1 percent in fiscal year 2024. As a result, growth in construction employment should trend down to 1.3 percent in fiscal year 2023 and then decline 3.1 percent in fiscal year 2024.

General Fund-State (GF-S) revenues grew 6.2 percent in fiscal year 2020, 13.3 percent in fiscal year 2021, and 11.3 percent in fiscal year 2022. GF-S revenues are expected to grow 0.6 percent in fiscal year 2023 and 1.4 percent in fiscal year 2024. The moderating economy, continued hiring, and restrained growth in consumer spending should keep revenues growing at a modest pace.

Major Initiatives

EDUCATION

K-12 enhancements. With the focus on students' social and emotional learning, policymakers began exploring enhancements to the K-12 education system. In 2022, the governor signed a supplemental budget that added \$415 million in state funding for new policy investments for public schools. These enhancements funded a K-12 salary increase, additional school nurses, counselors, and other social emotional learning staff, and outdoor education, while bolstering support for continued programs as well.

The 2022 supplemental budget provided major investments for public schools for both expansion of meal programs and pupil transportation. Included were ongoing costs to meet the state's obligation to fully fund public schools. Additionally almost \$400 million in federal funding went toward stabilizing enrollment, the Learning Assistance Program, and food services.

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 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.

During the 2022 legislative session, lawmakers provided funding for the higher education institutions to support various workforce sectors. This included \$13.5 million to create or expand cybersecurity programs. The supplemental budget also provides \$37 million for the nursing/healthcare sector, including funding for providing grant incentives for students to pursue health fields, establishing or expanding nursing programs, and expanding health care simulation laboratories.

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, including reproductive health care for all Washingtonians regardless of income level.

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, affordable housing units, 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.

Long-Term Services and Supports Trust (WA Cares). In 2019, the state enacted the first-in-the-nation long-term care benefit program, called WA Cares. Beginning July 1, 2026, qualified individuals could become eligible to receive up to \$36,500 in lifetime benefits to apply to the cost of their long-term care. The program is funded through a 0.58 percent premium assessment on an employee's wages, which will start to be collected on July 1, 2023. The program is administered jointly by the Department of Social and Health Services, the Employment Security Department, and the Health Care Authority.

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. The state adopted rules to implement this program in September 2022. The CCA is anticipated to

generate revenue which can be used for clean energy transition and assistance, clean transportation, and climate resiliency projects. In 2022, the Legislature made its first use of these funds, providing \$127 million for clean transportation projects, ramping up to \$360 million a year in future biennia on an ongoing basis as part of the Move Ahead Washington plan.

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. The state continued rulemaking for this program with implementation beginning in January 2023.

In recent 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. In 2022, the state began increasing investments in EV infrastructure to continue to convert the state fleet.

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. In 2022, the governor appointed the Environmental Justice Council 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 and 2021 fire seasons were Washington's second and third largest, resulting in the burning of more than 1.5 million acres. Smoke from these fires blanketed much of the state for weeks, particularly 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 2022 supplemental operating budget enhances food security with \$58 million in federal stimulus funding to expand 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 additional state funding including \$17.6 million for the state's Emergency Food Assistance.

TRANSPORTATION

Move Ahead Washington – Major Investments in Transportation Infrastructure. The governor signed the “Move Ahead Washington” package into law in March 2022. This transportation package lays the foundation for a massive shift from simply building more lanes to moving people via cleaner, more efficient transportation by including \$1.1 billion for four new hybrid-electric ferry vessels and conversion of four vessels to hybrid-electric and shoreside power, \$5.4 billion in active transportation investments, \$3 billion for transit programs including clean fuel grants for transit agencies, \$1 billion for the I-5 bridge over the Columbia River, \$3 billion for preservation, and \$2.4 billion to support the critical work of removing fish passage barriers along state highways that block hundreds of miles of habitat for salmon and steelhead.

Ferries/terminals. Work continues on the Seattle Colman multimodal terminal, which is estimated to be completed in 2023. Replacing the aging and seismically vulnerable Colman Dock is critical to maintain its role as a regional multimodal hub. The project includes replacing the main terminal building, the passenger only ferry facility that serves the King County Water Taxi and Kitsap Fast Ferry, a bicycle entry, and a new pedestrian bridge as well as stairs and elevators making access to the terminal and ferries seamless for all users.

Ferries/vessels. In addition to the ongoing preservation work on vessels, Washington State Ferries is moving forward on a procurement process to select a vendor to build five hybrid-electric vessels. The expected completion date of the first vessel is June 2027. Subsequent vessel build schedules are yet to be determined.

Construction. Work on major construction projects continues, including the Gateway SR 167/SR 509 project that will improve freight mobility, I-405 Renton to Bellevue that will improve traffic flow, the North Spokane Corridor project that will connect US 395 to US 2 to the north and I-90 near the Freya/Thor interchange to the south, and SR 520 Montlake that is a critical component to completing the SR 520 corridor.

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 Phases 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. This work has led to a reassessment of the Phase 1a schedule and go-live date, as the previously planned timeline was not adequate to address these systems changes. The program is working collaboratively with its vendors, oversight partners, and state agency representatives to provide a re-baselined schedule later this year.

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:

- In 2021, Results Washington hosted seven performance reviews with Governor Inslee on topics ranging from economic recovery to early learning. The governor was able to engage state leaders and community members on current efforts and strategies to improve. The public meetings with Governor Inslee are one milestone in a larger project management process. Because meetings are held virtually, a broader, more diverse and inclusive audience can participate than in previous iterations. The Results Washington team uses a disciplined approach to facilitating, coordinating, and providing project management for this work, including completing charters for each project and ensuring milestones are accomplished.
- Offering the 10th annual Washington State Government Lean Transformation Conference, which occurred virtually over several days in October and November 2021. The 11th annual Lean conference was held virtually in October 2022, with a record number of more than 4,000 attendees. This two-week conference provides state, local and federal government employees an opportunity to increase their knowledge, skills and abilities in a variety of continuous improvement disciplines to improve processes and results for customers.
- 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 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, 2021. 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 35 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.

State of Washington

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