



Washington State Auditor's Office

Government that works for citizens

2016 Comprehensive Annual Financial Report Summary

December 27, 2016

Each year, as required by law, the state publishes its Comprehensive Annual Financial Report (CAFR) to provide information on the state's financial position. The CAFR is a complex and lengthy document with detailed information on the state's structure, services, finances, trends and nonfinancial data.

To make this important information accessible to the broadest possible audience, the State Auditor's Office prepares this CAFR summary to provide a snapshot of the state's financial position, including revenues and expenditures, cash balances and debt.



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The mission of the Washington State Auditor’s Office

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

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

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

For more information about the State Auditor’s Office, visit **www.sao.wa.gov**.

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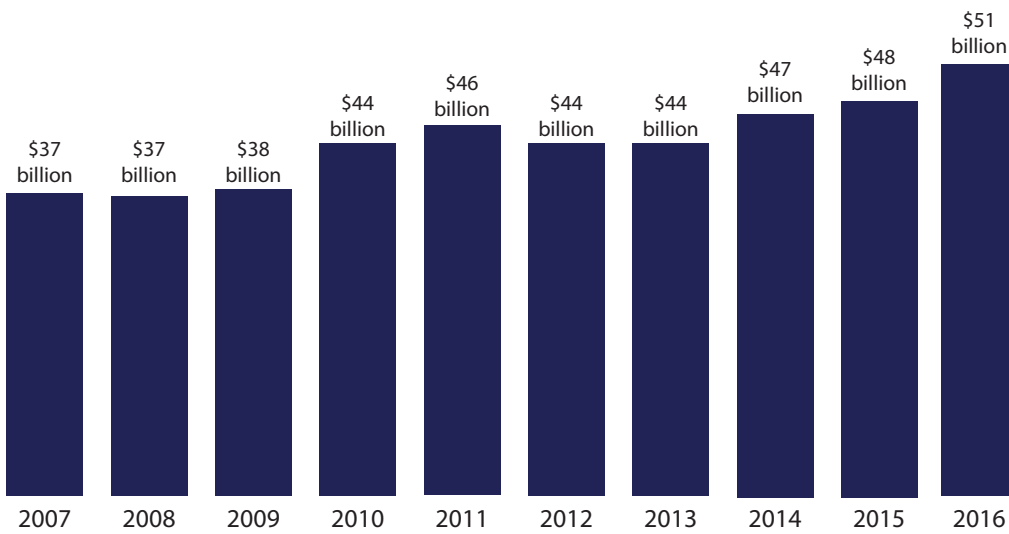
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A snapshot of Washington's finances

The Office of Financial Management prepares the Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles for governments. We perform an independent audit of the CAFR in accordance with generally accepted governmental auditing standards. Our audit of the fiscal year 2016 CAFR resulted in a clean audit opinion, meaning we concluded the financial statements fairly presented the state's financial position. The full report is available on the Office of Financial Management website at www.ofm.wa.gov/cafr/. Exhibits 1 and 2 set out the state's revenue and expenses for the past 10 years; Exhibits 3 and 4 compare 2015 and 2016 in detail.

Exhibit 1 – Total primary government revenue: 2007-2016

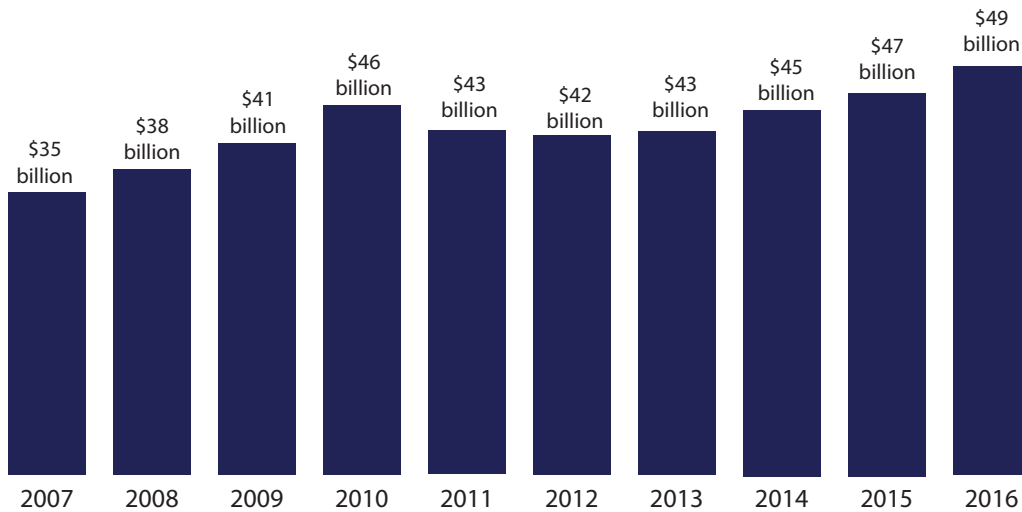
For fiscal years ending June 30



Source: Office of Financial Management.

Exhibit 2 – Total primary government expenses: 2007-2016

For fiscal years ending June 30



Source: Office of Financial Management.

Exhibit 3 – Total primary government revenue: 2016 compared to 2015

Dollars in billions

Revenue by source	FY 2015	FY 2016	Change in dollar value	Percent change
Charges for services	\$12.616	\$12.954	\$0.338	2.68%
Operating grants and contributions	\$15.235	\$15.427	\$0.192	1.26%
Capital grants and contributions	\$0.867	\$1.113	\$0.246	28.37%
Taxes	\$18.152	\$20.713	\$2.561	14.11%
Interest and investment earnings	\$0.684	\$1.167	\$0.483	70.61%
Total revenues	\$47.554	\$51.374	\$3.820	8.03%

Source: Office of Financial Management.

Exhibit 4 – Total primary government expenses: 2016 compared to 2015

Dollars in billions

Expenses	FY 2015	FY 2016	Change in dollar value	Percent change
General government	\$1.987	\$1.658	(\$0.329)	-16.56%
Education – K-12	\$9.426	\$10.153	\$0.727	7.71%
Education – Higher education	\$7.095	\$7.532	\$0.437	6.16%
Higher education student services	\$2.314	\$2.494	\$0.180	7.78%
Guaranteed tuition program	(\$0.585)	(\$0.152)	\$0.433	-74.02%
Human services	\$16.890	\$17.209	\$0.319	1.89%
Workers' Compensation	\$3.018	\$3.238	\$0.22	7.29%
Unemployment Compensation	\$0.968	\$1.020	\$0.052	5.37%
Adult corrections	\$0.956	\$0.983	\$0.027	2.82%
Natural resources and recreation	\$1.335	\$1.264	(\$0.071)	-5.32%
Transportation	\$2.309	\$2.363	\$0.054	2.34%
Interest on long-term debt	\$0.981	\$0.991	\$0.010	1.02%
Washington's Lottery	\$0.466	\$0.535	\$0.069	14.81%
Other activities	\$0.158	\$0.161	\$0.003	1.90%
Total expenses	\$47.318	\$49.449	\$2.131	4.50%

Source: Office of Financial Management.

Highlights

Revenues

As Exhibit 3 shows, total overall revenues for the state had a strong increase of \$3.82 billion, or 8.03 percent, in 2016 compared to 2015. In the prior year, revenue increased modestly by 1.16 percent. Fiscal year 2016 revenue increases were led by taxes, which increased by \$2.561 billion.

Expenses

Total state expenses in 2016 increased by \$2.131 billion and were 4.50 percent higher than in 2015. Exhibit 4 shows an expense increase led primarily by K-12 education as the state worked toward meeting the state Supreme Court's McCleary case ruling, which calls for the state to fully fund basic education.

General Fund cash balance

As Exhibit 5 shows, the state's General Fund cash position improved in fiscal year 2016. Total General Fund, Treasury and Trust Fund cash increased by \$1.017 billion, or 19.65 percent, as of June 30, 2016.

Exhibit 5 – State Treasurer's ending cash balances: 2016 compared to 2015

Dollars in billions

Fund type	FY 2015	FY 2016	Change in dollar value	Percent change
General	\$1.001	\$1.615	\$0.614	61.34%
Other Treasury	\$3.470	\$3.851	\$0.381	10.98%
Trust	\$0.704	\$0.726	\$0.022	3.13%
Total	\$5.175	\$6.192	\$1.017	19.65%

Source: State Treasurer.

Note: The state's financial statements indicate the General Fund has a \$2.38 billion cash balance. For financial statement reporting, additional accounts are considered to be part of the General Fund.

Debt burden

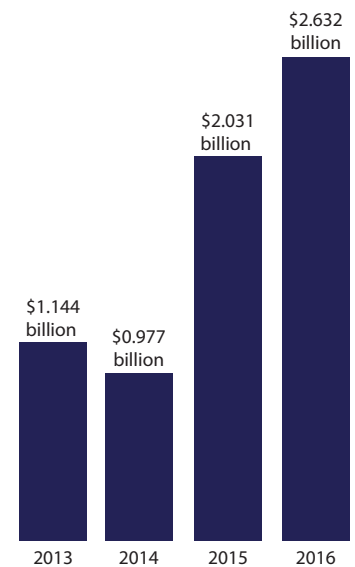
At the end of fiscal year 2016, the state had general obligation debt of \$20.5 billion, an increase of 3 percent over fiscal year 2015. The state has pledged its full faith, credit and taxing power to repay this debt. The state's total debt per capita was \$3,604, and the ratio of total debt to personal income was 7.1 percent. According to Moody's Investors Service, Washington's debt ratios are more than twice the national median level. Standard & Poor's Ratings Services has described the state's direct tax-supported debt burden as moderately high.

Borrowing capacity: The state Constitution limits the amount of state debt that may be incurred by restricting the amount of general state revenues that may be allocated to pay principal and interest on the debt. The state has not exceeded its constitutional debt limit. As of June 30, 2016, the State Treasurer estimated the state could support an additional general obligation bond issue of \$2.632 billion before reaching the constitutional limit. Exhibit 6 shows how the borrowing capacity has changed over the past four years.

The State Treasurer's report on [Certification of the Debt Limitation of the State of Washington Fiscal Year 2016](#) can be found on its website.

Exhibit 6 – Estimated borrowing capacity

For fiscal years ending June 30



Source: State Treasurer.

Bond ratings

On June 30, 2016, the state's general obligation debt was rated Aa1 by Moody's Investors Service, AA+ by Standard & Poor's Ratings Services and AA+ by Fitch Ratings. These ratings remain unchanged since 2011. Bond ratings are an important measure of the state's economic strength and accountability. They determine how much interest the state pays when it borrows money. Washington is considered to have good bond ratings. Standard & Poor's described the state's long term outlook as "stable," reflecting its view that the state's liquidity, financial trends and strengthening economy point to an improving financial position. The credit-rating service also considers the state's strong financial-management policies and institutions in its projection.

Workers' Compensation Program

The Workers' Compensation Program's deficit decreased \$202.2 million during fiscal year 2016, ending the year with a deficit balance of \$9.72 billion. The improvement in the net position deficit results mainly from an increase in investment income compared to the previous fiscal year.

The Workers' Compensation Program's claims and claims-adjustment liabilities were \$25.85 billion as of June 30, 2016. Only \$13.59 billion is funded by long-term investments, leaving an unfunded liability of \$12.26 billion for supplemental pension cost-of-living adjustments (COLAs). These COLAs are provided to injured workers and their dependents who receive disability payments. The state cannot save money in a fund to pay for these costs, because state law requires this program to be operated on a pay-as-you-go basis. This will put pressure on the Department of Labor and Industries to raise employer and employee premium rates or revamp benefits.

Unemployment compensation system

The unemployment compensation system reported operating income of \$157.6 million in fiscal year 2016, compared to \$344.9 million in fiscal year 2015. Washington's unemployment insurance program is an experience-based system, with the largest part of an individual employer's tax rate based on the employer's layoff history over the past four years. Therefore, employers with a history of more layoffs generally pay a higher unemployment tax rate.

There was a slight increase of \$52 million in unemployment insurance benefits in fiscal year 2016 compared to fiscal year 2015. The state's unemployment rate for June 2016 was 5.5 percent, up slightly from 5.3 percent in June 2015, and the insured rate declined to 1.4 percent in fiscal year 2016 from 1.5 percent in fiscal year 2015. Insurance premium revenue decreased by 9.3 percent as the insured rate declined. Federal aid for unemployment also decreased by \$17.8 million.

The state's Unemployment Trust Fund cash balance of \$4.058 billion at June 30, 2016, is one of the nation's largest.

State pension plans

Two of the state's closed pension plans, PERS 1 for retired state employees and TRS 1 for retired teachers, have significant unfunded liabilities. That means the state does not have enough money set aside to pay the promised retirement benefits to retirees in those two systems. This situation was primarily caused by periods of underfunding, retroactive benefit enhancements and investment losses. As of June 30, 2015, the state's share of the PERS 1 net pension liability was \$2.2 billion, and the plan was 59 percent funded. The state's share of the TRS 1 net pension liability was \$27.2 million, and the plan was 66 percent funded. The Washington State Actuary's website shows the [actuarial valuation of the state's retirement systems as of June 30, 2015](#).

Post-employment benefits

The state administers a post-employment benefit plan of subsidized medical, dental, life and long-term disability insurance to employees who elect to continue coverage and pay the administratively established premiums at the time they retire. This plan operates on a pay-as-you-go basis and does not accumulate resources for future payments. The plan had an unfunded liability of \$5.3 billion as of January 1, 2015. This is the most recent actuarial valuation available.

Guaranteed Education Tuition (GET) program

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

Legislation enacted in 2015 reduced tuition at all public institutions of higher education during the next two years. This improved the funded status of the program. The state's actuarial analysis of the GET program showed the program's assets exceed the present value of future payment obligations by \$626 million as of June 30, 2016. This means the program is fully funded, at 136 percent of total obligations, as shown in [Exhibit 7](#).

Exhibit 7 – GET program obligations, assets and reserves/deficits: 2012-2016

For fiscal years; dollars in billions

Fiscal year ending June 30	Present value of obligations for future payments	Program assets	Reserve/ (deficit)	Funded status
2012	\$2.942	\$2.311	(\$0.631)	78.6%
2013	\$2.716	\$2.557	(\$0.160)	94.1%
2014	\$2.767	\$2.928	\$0.161	105.8%
2015	\$2.042	\$2.862	\$0.820	140.1%
2016	\$1.726	\$2.352	\$0.626	136.0%

Source: State Actuary.

Risk Management Fund

The Risk Management Fund has set aside \$54 million in cash and investments to pay for future estimated claims of \$569 million as of June 30, 2016. This fund pays tort claims, judgments and settlements against the state. State law limits accumulating funds in the Self-Insurance Liability Program to 50 percent of total outstanding and actuarially determined claims.

State budget

Washington continues to face the requirements of the state Supreme Court’s 2012 McCleary ruling that the state has failed to meet its constitutional requirement to amply fund basic education. Although funding progress was made in the 2015-17 biennial budget, it was insufficient to satisfy the Court. On August 13, 2015, shortly after the conclusion of the 2015 legislative session, the Court ordered daily penalties of \$100,000 until the Legislature fully funds basic education as previously ordered. In November 2016, the state Economic and Revenue Forecast Council issued a budget outlook considering the estimated spending required to comply with the McCleary decision. The outlook projected a \$1.489 billion shortfall in the 2017-2019 biennium and a \$7.444 billion shortfall by the end of the 2019-2021 biennium.

The state’s Budget Stabilization Account (“rainy-day fund”) is available for use in the event of emergencies or by a vote of the Legislature. The account had a balance of \$549.6 million as of June 30, 2016, and was bolstered by a Legislatively approved transfer of \$185.7 million from the General Fund. Exhibit 9 shows the fiscal year-end balances in the Budget Stabilization Account over the past six years. The account contains a significantly higher balance now than in 2011.

Exhibit 8 – Tort payouts and defense costs: 2012-2016

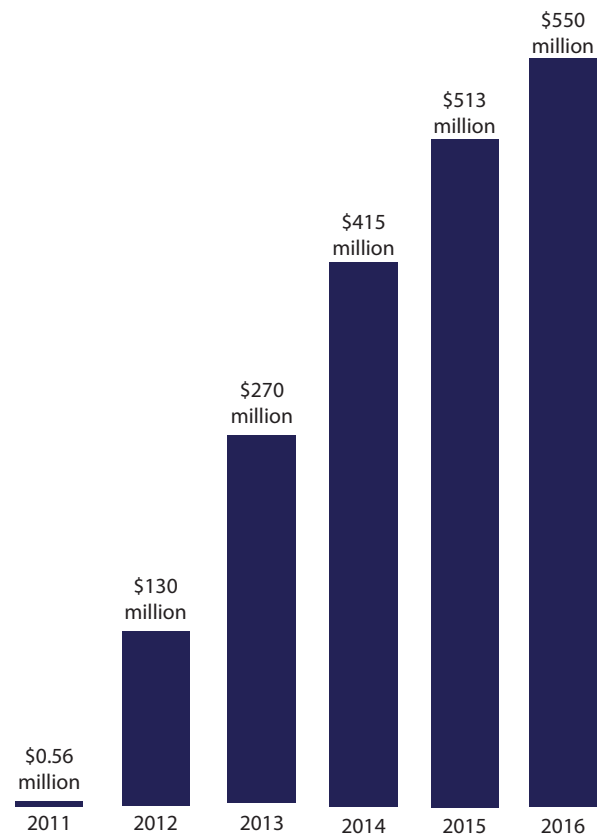
For fiscal years; dollars in millions

Fiscal year ending June 30	Tort payouts	Defense costs	Total
2012	\$43	\$17	\$60
2013	\$66	\$18	\$84
2014	\$48	\$19	\$67
2015	\$60	\$21	\$81
2016	\$39	\$23	\$62

Source: Office of Financial Management.

Exhibit 9 – Budget Stabilization Account (“rainy-day fund”) balances: 2011-2016

For fiscal years ending June 30



Source: Office of Financial Management.