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Washington State Treasurer
Duane A. Davidson

Report to the Citizens of Washington

Fiscal 2020 • July 1, 2019 - June 30, 2020



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Our Mission:

Effectively and efficiently manage investments, debt, and cash to protect and enhance Washington State's strong financial standing, build economic vitality, and ensure the highest possible value for every tax dollar in a rapidly changing financial and regulatory environment.

What We Do

The Office of the State Treasurer (OST) serves as a bank for Washington state government and is responsible for the safety and security of the state's money.

The treasurer serves on state committees overseeing economic and revenue forecasting, economic development, college savings plans, housing access and affordability, and stewardship of investments for public employees.

The agency's divisions manage cash flow, facilitate investment of the state's operating cash, carefully accounts all transactions, manage debt, and provide financing and financial education resources.

Cash Management

We manage banking services for over 500 state accounts on a pooled basis to reduce banking fees, and we track receipts and spending separately for each account.

Debt

We structure and secure financing for capital and transportation budget projects, including roads and bridges, school buildings, state park projects, and refinance bonds when appropriate to take advantage of lower interest rates.

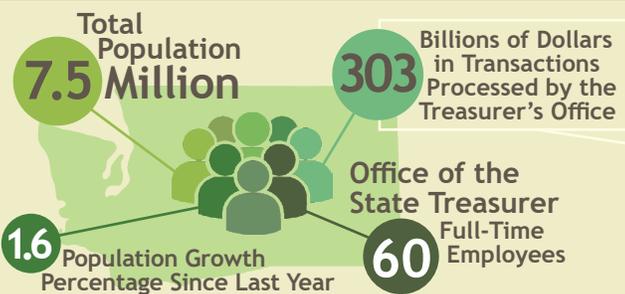
Investment

We pool state funds with local government short-term surplus operating cash and invest those funds to help taxing districts get better interest rates and terms than they would be able to receive on their own.

Financial Education

We form partnerships with other Washington state agencies and organizations to provide learning opportunities to community members throughout the state that will help them better be able to make informed financial decisions.

The State of Washington



Last year, The Treasurer's Office processed all the state's \$303 billion cash flow as it passed through the state's Treasury Trust Fund, which is overseen by the Treasurer. Cash flow is the amount of cash and cash equivalents like credits and debits being transferred into and out of this account.



Washington Treasurer Duane A. Davidson oversees the safety and security of state finances as the state's chief financial officer in his fourth year leading the Office of the State Treasurer.

During Fiscal Year 2020, in addition to receiving an upgrade from rating agency Moody's to triple-A (the highest possible credit rating), the office reached new heights in its internal systems improvements, service to local governments, and prudent management of taxpayer dollars.

Financial Auditing

The State Treasurer's Office invests billions of dollars belonging to local municipalities participating in the Local Government Investment Pool, so properly preparing financial statements and having them audited regularly is key to safety and transparency.



During FY 2020, the LGIP Comprehensive Financial Report earned the Government Finance Officers Association (GFOA) Award for Excellence in Financial Reporting. It was the 23rd consecutive year that the Treasurer's Office received the award.

Financial Education

To reach learners where they are during COVID-19, Treasurer Davidson started a financial education reading challenge on social media in which he recorded himself reading a book that teaches lessons about money management.



OST is bridging the gap between school and families, by partnering with non-profits to provide financial education workshops to those considered "furthest from reach" such as domestic violence survivors, opportunity youth, and job-seeking adults.

OST led workshops teaching practical applications of budgeting, credit/debt, emergency savings, and 'how to talk to your kids about money' using the OST digital learning modules as teaching tools.

Investment Management

Deposits from 630 participants from cities, towns, community colleges and universities, as well as state agencies other public entities in the Local Government Investment Pool (LGIP) peaked at a new record high of over \$23.1 billion in June 2020.



In FY 2020, OST expanded its successful pilot program to include 2 additional municipalities in its Separately Managed Accounts, which provide a longer-term investment option to eligible governmental entities and allow local governments around the state to take advantage of OST's investment expertise for their core balances.

Debt Management

The Treasurer's debt team increased the frequency of Certificates of Participation (COP) issuances from just twice a year to three times a year starting in FY 2020, which now gives local governments the option to borrow at the state's low tax-exempt financing rates more often.



Inactive since 2011, the State Treasurer reintroduced the LOCAL Program Advisory Group (LPAG) in FY 2020. The 12-member advisory group, comprised of 3 members appointed by the Treasurer and 9 members nominated from associations representing potential users of the LOCAL Program, assembled for its first virtual meeting in the summer of 2020. The group aims to improve operations, accessibility, and administration of the State Treasurer's LOCAL Program.



Washington's Biggest Revenue Sources

The Treasurer's Office is often asked all types of questions about state finances. People want to know about the different revenue sources. This page shows some of the biggest and most commonly asked about sources of revenue for the state of Washington which, according to the Department of Revenue, collected a total of \$25,743,758,000 in taxes during the previous fiscal year.



Cannabis Revenue

Washington legalized recreational marijuana (cannabis) in 2012. In FY 2020, the state's Liquor and Cannabis Board (LCB) reportedly collected \$395.5 million in taxes and fees during the previous year, \$10.4 million of which pays for LCB operations, and \$6.2 million becomes appropriated.

Source: <https://lcb.wa.gov/about/annual-report>

Cannabis Revenue Distribution	
Account	Total Distributed
General Fund	\$116.5 Million
Basic Health	\$188.3 Million
Cities, Counties	\$15.0 Million
Education, Prevention	\$9.5 Million
Research & Other	\$49.6 Million



Property Tax Revenue

Property taxes are paid directly to the county treasurer's office. However, the state's Department of Revenue oversees the administration of property taxes at state and local levels. About one third of property tax payments goes to funding education as per a 2017 Supreme Court order known as the McCleary Decision.

Sources: <https://dor.wa.gov/taxes-rates/property-tax>
https://dor.wa.gov/sites/default/files/legacy/Docs/Reports/Historical-Tax-Collections_website.xlsx

Property Tax Breakdown
\$12.91 billion collected
Total Property & In-lieu Excise Taxes: \$3,472,025,000
State Property Tax Levy: \$3,359,107,000



Business and Operating Tax Revenue

Business and Occupation (B&O) taxes are classified into several categories, including retailing, wholesaling, and manufacturing. The B&O tax rate varies by classification. Businesses are required to register with the Department on Revenue and file a tax return regularly.

Source: <https://dor.wa.gov/taxes-rates/business-occupation-tax/business-occupation-tax-classifications>

B&O Tax Breakdown	
Total B&O taxes collected	\$4.44 billion
Wholesaling B&O tax rate	0.484%
Retailing B&O tax rate	0.471%
Manufacturing B&O tax rate	0.484%
Service and Other Activities B&O tax rate	1.5%



Sales/Excise Tax Revenue

Retail sales tax is Washington's principal tax source and is collected by businesses making retail sales, while excise taxes are paid when purchases are made on a specific good, such as gasoline or tobacco. The Sales tax rate depends on the location of the sale.

Source: https://dor.wa.gov/sites/default/files/legacy/Docs/Reports/Historical-Tax-Collections_website.xlsx

Sales Tax Breakdown
Washington has 51 different types of excise taxes
\$11.17 billion was collected in retail sales tax during the previous year
Washington's sales tax rate is 6.5%



Looking Ahead: Challenges in Fiscal Year 2021

Challenges for the state:

COVID-19 brought some significant challenges to the Office of the State Treasurer and to the rest of Washington's state and local governments. These challenges will likely continue to affect government operations and tax revenues for years to come.



In June of 2020, the state's Economic and Revenue Forecast Council reported:

- The June 2020 General Fund-State revenue forecast was reduced by \$4.5 billion in the current biennium and \$4.4 billion in the next.
- The revised General Fund-State revenue forecast leaves \$46.129 billion for the current biennium and \$49.935 billion for the 2021-23 biennium.
- Washington's unemployment rate soared from an all-time low in February 2020 to an all-time high of 16.3%.
- Washington would see a 5.5% decline in employment for FY 2021.

Source: <https://erfc.wa.gov/forecasts/revenue-forecast>

Up next for the Treasurer's Office:

The Treasurer's Office will continue to play a critical role in helping Washington's local governments on both sides of the balance sheet. First, by offering the LOCAL Program to assist municipalities in financing purchases at extremely low rates, and second with Separately Managed Accounts, which allow local governments to utilize the Treasury's investment expertise and receive maximized returns from their longer-term investments.



- **Promoting the LOCAL Program:** The LOCAL program increased its number of issuance from two to three per year to keep up with demand. Participants benefit from the current program rating of Moody's Aa1, low fees and expenses, technical assistance, and access to the tax-exempt bond market.
- **Expanding Separately Managed Accounts (SMA):** continues to grow its Separately Managed Accounts, which offers investment portfolios that provide a longer-term option to eligible governmental entities, adding two new participants in FY 2020; the cities of Sammamish and Redmond. In addition to Pierce County, the pilot account, the three accounts represent \$440 million.

We want to hear from you!

Do you like this report? Do you believe it should include any other information? Please let us know with an email.

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The Association of Government Accountants (AGA) developed a standard format for reporting to the public called the Citizen-Centric Report (CCR) and helps citizens better understand the services provided by their government. This CCR is to inform citizens of the work of the Office of the State Treasurer (OST).



More information on CCR can be found at the AGA website: <https://www.agacgfm.org>