

Report to the Citizens of Washington

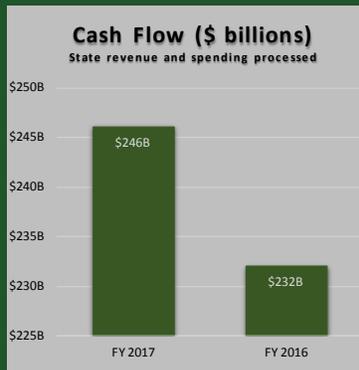
Fiscal 2017 • July 1, 2016-June 30, 2017



**Washington State Treasurer
Duane A. Davidson**

WHAT'S
INSIDE

Accomplishments.....2
At a Glance.....3
The Road Ahead.....4



Contact Us:

PO Box 40200
Olympia, WA 98504

360-902-9000

watreas@tre.wa.gov
www.tre.wa.gov

Facebook and Twitter:
@WaTreasurer

Mission Statement

The Office of the State Treasurer (OST) serves like a bank for Washington state government. We help state and local governments manage and invest taxpayer funds, and we issue and service the state's debt. OST also promotes financial education.

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.

What We Do

Cash Management

The office managed over \$246 billion in cash flow during Fiscal Year 2017. OST manages banking for over 500 state fund accounts on a pooled basis, saving on banking fees. We track receipts and spending separately for each account.

Debt

OST arranges financing for capital and transportation budget projects that our state's growing population needs. This finances roads and bridges, school buildings, state parks projects, and more. OST also helps state agencies and cities finance real estate and equipment, and saves school districts money through guaranteeing their bonds. We also refinance bonds when interest rates have fallen, saving hundreds of millions of taxpayer dollars. More on debt: <http://tre.wa.gov/debt16>

Investment

OST pools state funds with short-term surplus operating cash from many Washington cities, school districts, counties and other taxing districts and invests those funds via the Local Government Investment Pool (LGIP). Through a state master contract we help taxing districts get better rates and terms from financial institutions who safeguard their investment securities.

Financial Education

Too many Washingtonians struggle with their personal finances; things like budgeting, savings and personal debt. Partnering with organizations like Junior Achievement, we are working to help increase the younger generation's understanding of how they can best manage their own finances.

Washington Population

| Year/Measure | Population (WA) | Population 65+ (WA) |
|--------------|-----------------|---------------------|
| 2001 | 6 million | 677,931 |
| 2016 | 7.2 million | 1,073,338 |
| 2017 | 7.3 million | 1,120,703 |
| 2040 (Est.) | 9.1 million | 1,984,802 |

(Note: Population is as of each April 1. Source: OFM, "Forecast of State Population", Nov. 2016.)

Accomplishments: Washington State Treasurer, Fiscal Year 2017

Washington's 23rd State Treasurer Duane Davidson took office in January, 2017, halfway through the fiscal year. During fiscal year 2017, OST continued its strong and prudent management of taxpayer resources, and broke new ground.

Highlights included:

Investment Management

- LGIP hit a new record high of over \$16 billion in May 2017.
- LGIP also earned, for the 20th time in a row, a major national

recognition for excellence in financial reporting.

Debt Management

- Despite concerns about debt portfolio size and level of annual debt service payments, the state maintained its high bond rating of Aa1 (Moody's) and AA+ (S&P and Fitch).

- OST used low interest rates to refund some previously issued bonds. This will save \$169.6 million in debt service savings over the life of the bonds or nearly \$145.9 million on a net present value basis.



Community Outreach

- Treasurer Davidson started an active community outreach campaign, speaking with community, civic and professional organizations across the state. He explained OST's core work for taxpayers on cash management, investment and debt management.
- He underscored the importance of controlling state debt levels.



Annual debt service payments now total over \$2 billion.

- The Treasurer's keynote speech to the 70th YMCA Youth Legislature highlighted youth engagement in government. And his keynote speech to Junior Achievement's annual meeting focused on partnership in building financial literacy.

Digital Upgrade

- We developed and launched our new website – including new informational videos and answers to frequently asked questions

- The website continues to serve important institutional stakeholders – but now also addresses concerns of citizens and taxpayers.

- OST's first Facebook and Twitter accounts were launched.



Bipartisanship in Hiring For Top Posts

- A moderate Republican committed to bipartisanship, Treasurer Davidson's new hires included highly-qualified Democrats for Assistant Treasurer and a top policy advisor.



At a Glance

State and OST Budgets

| Year/Measure | State Operating Budget | OST Operating Budget |
|------------------|------------------------|----------------------|
| Fiscal 2017-2019 | \$74.6 billion | \$18.9 million |
| Fiscal 2015-2017 | \$65.9 billion | \$16.8 million |

(Note: State and state agency budgets are set for periods of two years at a time. Figures are for appropriated budget. Source: WA LEAP/OFM)

OST Employment

| | |
|---|----------|
| OST Staff Size, Fiscal Year 2017 (4/1/17) | 62 FTE |
| OST Staff Size, Fiscal year 2016 (4/1/16) | 64 FTE |
| OST Staff Size, Fiscal Year 2001 | 72.8 FTE |

(Note: FTE = Full-time Equivalents. Source: OST)

Washington State Debt Indicators

| Year/Measure | NTSD (\$/rank) | NTSD as % income | NTSD per capita | NTSD % GSP |
|----------------|---------------------|------------------|---------------------|-------------------|
| End of CY 2016 | \$19.8B/8th highest | 5.4%/5th highest | \$2,717/6th highest | 4.45%/7th highest |
| End of CY 2015 | \$19.8B/8th highest | 5.7%/5th highest | \$2,761/6th highest | 4.7%/6th highest |

(Note: Data from Moody's. NTSD = Net Tax-Supported (State) Debt. GSP = Gross State Product. CY = Calendar Year. Rankings are 50-state.)

Lease/Purchase Program \$ Outstanding

| Year/Measure | L-P \$ Outstanding | State Contracts/\$ Value | Local Contracts/\$ Value |
|----------------|--------------------|--------------------------|--------------------------|
| As of 06/30/17 | \$884.2 million | 476/\$813.6 million | 223/\$70.6 million |
| As of 6/30/16 | \$825.5 million | 456/\$748 million | 234/\$77.5 million |

(Note: L-P \$ Outstanding = Dollar value of Lease/Purchase program obligations outstanding. The program provides state agencies and local governments an alternative way to finance essential real estate and equipment over a multi-year period.)

\$ Value of Fire Engines and Ambulances Funded Via LOCAL

| Year/Measure | \$ Value Fire Engines & Ambulances Funded via LOCAL |
|----------------|---|
| As of 06/30/17 | \$37 million since 1999 |
| As of 06/30/16 | \$35 million since 1999 |

(Note: OST's LOCAL Program helps local governments finance essential real estate and equipment over a multi-year period.)

\$ Value of Local School Bonds Guaranteed By State

| Year/Measure | School Bond Guarantee Program - running total \$ |
|----------------|--|
| As of 06/30/17 | \$22.8 billion |
| As of 06/30/16 | \$19.7 billion |

(Note: The figures reflect the cumulative dollar value of local school bonds guaranteed under OST's related program. It is estimated that the program saves taxpayers about \$11 million annually. The state has not been called upon to pay debt service on any school debt.)

\$ Value & Savings of Refinanced State Bonds

| Year/Measure | \$ Value Refinanced Bonds | Savings over Life of Bonds |
|------------------|---------------------------|----------------------------|
| Fiscal Year 2017 | \$1.056 billion | \$169.6 million |
| Fiscal Year 2016 | \$954 million | \$157.2 million |

(Note: When and where feasible, the Treasurer's Offices refinances state-issued bonds, to save taxpayer funds on interest the state must pay to bondholders. Source: OST.)



The Road Ahead: Challenges in Fiscal Year 2018

Challenges

For the Treasurer's Office

Making Our State Debt Analysis Count. OST's annual debt affordability study has historically been released in January, near the same time as lawmakers return to Olympia to start their intense legislative session. As legislators are engulfed in meetings once their session starts, to be effective this study will be published and distributed earlier. The 2016 debt affordability study can be found at <http://tre.wa.gov/debt16>

Starting this year, we intend to release the report at least a month earlier than in past years. We'll mail it directly to the home addresses of state senators and representatives so they will be more likely to prioritize the important information in it, which suggests the state needs to tame its appetite for debt.

When I was Benton County Treasurer we cut the amount of county debt by more than 50%. Our state needs to focus on keeping debt levels in check.

Expanded Community Engagement. As a newly elected State Treasurer, I will be spending considerable time around the state meeting with and listening to citizens, county treasurers and other local government officials. If you or your organization would like to meet with me please contact our office. We are always looking for ways to better serve Washington citizens and the Treasury's customers/partners.

For Washington State

Controlling Debt. Containing state debt to its Constitutional limit, which Washington does, isn't enough. Our \$20 billion debt portfolio, and the associated \$2 billion we pay in annual debt service, need to be reduced. This is particularly important because interest rates are likely to eventually rise further. This challenge falls upon state legislators, but the Treasurer can help illuminate the need.

Improving Infrastructure. As the state's rapid growth continues, pressure on roads, bridges, water and wastewater infrastructure will continue. The \$16 billion Connecting Washington package approved by lawmakers in 2015 was a strong step forward on transportation, but needs are considerably greater. Legislators will need to stay focused on infrastructure funding strategies other than authorizing additional debt.

Thank you for reading our first-ever OST Citizen Centric Report. We hope it has been useful, and we welcome your thoughts about how we can make future versions better. Feel free to contact me about this report or other Treasury issues via: Duane.Davidson@tre.wa.gov.

To view this report online, go to: <http://tre.wa.gov/ccr/>

Stay Connected



Facebook:
<https://facebook.com/WaTreasurer>

Twitter: <https://twitter.com/WaTreasurer>

