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Washington State Treasurer  
Duane A. Davidson



# Report to the Citizens of Washington

*Fiscal 2018 • July 1, 2017 - June 30, 2018*



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## Our Mission:

The Office of the State Treasurer (OST) serves as 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

OST manages banking services for over 500 state accounts on a pooled basis, reducing banking fees. We track receipts and spending separately for each account. During Fiscal Year 2018 the office managed a cash flow of over \$246 billion.

### Debt

OST structures and secures the financing for capital and transportation budget projects that serve our state's growing population. These projects include financing roads and bridges, school buildings, state park projects, and more. OST also helps state agencies and cities finance real estate and equipment through the LOCAL Program, and saves school districts money by guaranteeing the repayment of their bonds. The office also refinance bonds when appropriate to take advantage of lower interest rates, saving hundreds of millions of taxpayer dollars.

### 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). This helps taxing districts get better interest rates and terms from financial institutions than they would be able to receive on their own.

### Financial Education

Mastering personal finances, just like state finances, requires a keen understanding of budgeting and planning for the future. This is often a struggle for many Washingtonians and yet, it is a vital component of success. OST is partnering with several other state agencies and organizations, joining together to provide financial literacy learning opportunities to communities throughout the state.



# Accomplishments

Washington's 23rd State Treasurer Duane Davidson took office in January, 2017, halfway through the fiscal year. Under his leadership, during Fiscal Year 2018, OST continued its strong and prudent management of taxpayer resources, and broke new ground.

Highlights include:

## Outreach for Financial Education

- Treasurer Davidson spoke with the winners of the Washington State Treasurer's Finance Challenge, a game for high schoolers which simulates the stock market and challenges the students in investment strategies.
- Capitol High School's personal finance class invited the Treasurer to speak on a few vital lessons for students to know before graduating—debt, credit cards, students loans and auto loans.
- During Reading Days, the Treasurer joined several other elected officials who read Lisa Bullard's *Ella Earns Her Own Money* in various elementary schools around the state. The Treasurer answered important questions from extremely engaged students about goals and savings.



## Investment Management

- Deposits in the Local Government Investment Pool (LGIP) hit a record high of over \$17 billion in June 2018.
- LGIP also earned, for the 21st time in a row, major national recognition and a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada.



## Debt Management

- Thanks to strong debt management practices the state maintained its high bond rating of Aa1 (Moody's) and AA+ (S&P and Fitch) ensuring a low cost of funds for future projects.
- For FY 2018 OST took advantage of low interest rates to refund some previously issued bonds. This will save \$213.7 million in debt service costs over the life of the bonds, or nearly \$166.7 million on a net present value basis.



## Internal Auditing

- In June of 2018, OST launched a new internal auditing function to review policies and procedures, develop internal controls to protect assets, and assist the agency in making sure it is effective and efficient.
- The internal auditor will coordinate with external annual audits to ensure that resources and money are not at risk.



# At a Glance

**\$21 BILLION**

The total amount of Washington's outstanding debt and financing contracts, with total annual debt service of \$2.1 billion in Fiscal Year 2018

Percentage of Near General Fund-State revenues that will be used to pay Various Purpose General Obligation debt service in Fiscal Year 2018

**5.8%**

**\$2,662**

The amount each Washingtonian would need to contribute to repay the state's outstanding General Obligation Debt and financing contracts

## School Bond Guarantee Program



**\$25 Billion**

In school district general obligation bonds guaranteed by the state since the program's inception.

These school bonds provide funding to build schools and receive a lower borrowing cost due to the state's AA+/Aa1/AA+ credit backing.

## Certificates of Participation (COP) programs

The Treasurer operates two Certificates of Participation (COP) programs: the LOCAL Program and State Lease/Purchase Program.

COPs provide Washington state agencies and local governments with a cost effective way to finance essential real estate and equipment over a multi-year period. The program is structured to ensure agencies benefit from economies of scale and the state's low tax-exempt financing rates.

The LOCAL program gives Washington municipalities the option to purchase much needed equipment and real estate at a cost that is lower than they would otherwise find on their own. **Examples include:**



## Taxpayer Savings

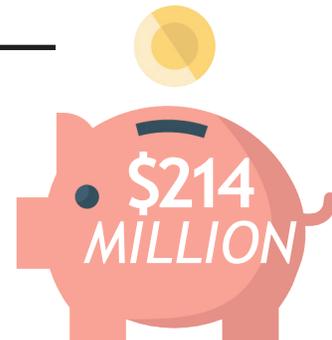
OST carefully manages its debt, taking advantage of refunding opportunities on outstanding bonds to lighten its debt load.

Similar to refinancing a home, refunding bonds results in gross debt service savings.



◀ **2017 Savings**

**2018 Savings** ▶



# Looking Ahead: Challenges in Fiscal Year 2019

## Challenges

### For the Treasurer's Office

*Making Our State Debt Analysis Count:* OST's annual Debt Affordability Study is expected to be released in December, prior to the return of legislators in Olympia to start their intense legislative session. What's inside the report:

- Overview of the state's current debt levels
- Discussion on how we got here
- Recommendations on debt and credit metrics going forward

The 2018 Debt Affordability Study can be found at <https://tre.wa.gov/DAS>

*Banking Security:* OST reviewed studies from other cities, states, and territories on creating a public banking system and concluded that switching to public banking would not be beneficial for the state. Outcomes of these studies overwhelmingly conclude that public banking systems potentially carry high risk, and may not satisfactorily protect public money.

*Expanded Community Engagement:* The Treasurer continues to spend considerable time traveling 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 the State Treasurer, please contact OST. The office is always looking for ways to better serve Washington citizens and the Treasury's customers and partners.

### For Washington State

*Centralizing Resources:* In the fall of 2018, the Office of the State Treasurer will launch a new resource to help municipalities, governments and organizations find the funding they need for a variety of future projects. This funding resource hub, for the first time in Washington, is going to give users the ability to find the right funding source for their project in one convenient, consolidated location.

*Controlling Debt:* Containing state debt within the Constitutional limit, which Washington does, is not enough. Our \$21 billion debt portfolio, and the associated \$2 billion the state pays in annual debt service, needs to be reduced. This is particularly important in a rising interest rate environment. This challenge falls upon state legislators, but the Treasurer can help illuminate the need.

The Association of Government Accountants (AGA) developed a standard for reporting to the public and helps citizens better understand the services provided by their government called Citizen-Centric Reporting (CCR).

This CCR is intended to inform citizens of the work of the OST. We want to hear from you. Do you like this report? Do you believe it should include any other information? Please let us know by emailing us at:

[watreas@tre.wa.gov](mailto:watreas@tre.wa.gov)

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