This Preliminary Official Statement and the information contained herein are subject to completion, revision and amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED JULY 20, 2009

SALE DATE: JULY 28, 2009 **Moody's Rating: Aa2**
NEW ISSUE, BOOK-ENTRY ONLY **(See "Other Certificate Information—Rating.")**

In the opinion of Foster Pepper PLLC, Seattle, Washington, Certificate Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Certificates, interest evidenced and represented by the Certificates is excluded from gross income for federal income tax purposes and is not subject to the alternative minimum tax. However, interest evidenced and represented by the Certificates received by certain S corporations may be subject to tax, and interest evidenced and represented by the Certificates received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest evidenced and represented by the Certificates may have other federal tax consequences for certain taxpayers. See "Tax Matters—Tax Exemption of Certificates" and "—Certain Other Federal Tax Consequences."

$55,750,000*

STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION, SERIES 2009F
(STATE BOARD FOR COMMUNITY AND TECHNICAL COLLEGES)

Evidencing and Representing Undivided Proportionate Interests of the Owners Thereof in Base Rent Payments to be Made by the State of Washington Pursuant to the Master Financing Lease

DATED: DATE OF INITIAL DELIVERY (EXPECTED TO BE AUGUST 11, 2009) **DUE: JULY 1, AS SHOWN ON PAGE i HEREOF**

The State of Washington Certificates of Participation, Series 2009F (State Board for Community and Technical Colleges) (the "Certificates"), will be executed and delivered in fully registered form and, when executed and delivered, will be registered initially in the name of CEDE & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only, in denominations of $5,000 and any integral multiple thereof. Purchasers will not receive certificates representing their beneficial ownership interests in the Certificates purchased, except as described herein.

The interest evidenced and represented by the Certificates is payable semiannually on each January 1 and July 1, beginning on January 1, 2010. Principal and interest evidenced and represented by the Certificates is payable directly to DTC by The Bank of New York Mellon as Fiscal Agent for the Certificates (the "Fiscal Agent"). Upon receipt of payments of principal and interest represented by the Certificates, DTC in turn is obligated to remit such payments to the DTC Participants (as described herein) for subsequent disbursement to the purchasers of beneficial ownership interests in the Certificates.

The Certificates are subject to optional prepayment prior to their respective Principal Payment Dates. In addition, the Certificates are subject to extraordinary mandatory prepayment and may be subject to mandatory sinking fund prepayment prior to their respective Principal Payment Dates if Term Certificates are specified. See "The Certificates—Prepayment."

The Certificates are being executed and delivered to finance and/or refinance the acquisition or construction of certain real property for the benefit of the State Board for Community and Technical Colleges (the "Agency") and to fund issuance costs with respect to the Certificates. The Certificates are being executed and delivered by the Fiscal Agent pursuant to a Trust Agreement among the Fiscal Agent, the State Treasurer and the Washington Finance Officers Association (the "Corporation"), a Washington non-profit corporation. The Certificates represent undivided proportionate interests in Base Rent Payments to be made by the State of Washington (the "state") under the Master Financing Lease between the Corporation and the state.

Except as otherwise described herein, Base Rent Payments due from the state under the Master Financing Lease are payable from Agency Rent Payments to be made pursuant to the Financing Leases between the state and the Agency.

THE MASTER FINANCING LEASE, INCLUDING THE STATE AGENCY FINANCING LEASE ADDENDA, CONSTITUTES A SPECIAL LIMITED OBLIGATION OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. NONE OF THE BASE RENT PAYMENTS, AGENCY RENT PAYMENTS NOR THE CERTIFICATES CONSTITUTE OR REPRESENT DEBT OR GENERAL OBLIGATIONS OF THE STATE OR THE AGENCY, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR THE AGENCY IS PLEDGED TO THE PAYMENT OF ANY SUCH PAYMENTS OF THE PRINCIPAL OR INTEREST EVIDENCED AND REPRESENTED BY THE CERTIFICATES. THE STATE WILL NOT BE OBLIGATED TO PAY THE SAME EXCEPT FROM AGENCY RENT PAYMENTS AND OTHER AMOUNTS AS PROVIDED IN THE MASTER FINANCING LEASE. PAYMENTS BY THE AGENCY OF ITS AGENCY RENT PAYMENTS ARE SUBJECT TO APPROPRIATION BY THE STATE LEGISLATURE AND EXECUTIVE ORDER REDUCTION BY THE GOVERNOR. A DETERMINATION BY THE STATE LEGISLATURE NOT TO APPROPRIATE, OR ANY EXECUTIVE ORDER REDUCTION BY THE GOVERNOR, WOULD NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE TRUST AGREEMENT, THE MASTER FINANCING LEASE OR THE STATE AGENCY FINANCING LEASE ADDENDA.

This cover page contains certain information for quick reference only, and is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Certificates are offered when, as and if executed and delivered, and are subject to receipt of the legal opinion of Foster Pepper PLLC, Seattle, Washington, Certificate Counsel to the state, and certain other conditions. It is expected that the Certificates will be available for delivery through the facilities of DTC in New York, New York, or to the Fiscal Agent on behalf of DTC by Fast Automated Securities Transfer on or about August 11, 2009.

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* Preliminary, subject to adjustment by the state as provided in the Official Notice of Sale.

No dealer, broker, sales representative, or other person has been authorized to give any information or make any representations other than those contained in this Preliminary Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the state. This Preliminary Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from sources which are believed to be current and reliable but is not guaranteed as to its accuracy or completeness. The statements and information herein are subject to change without notice, and neither the delivery of this Preliminary Official Statement nor any sale of the securities offered hereby shall under any circumstances create an implication that there has been no change in the affairs of the state of Washington, or any other party described herein, since the date hereof. Neither this Preliminary Official Statement nor any statement made herein is to be construed as a contract with the purchasers of any of the Certificates.

Certain statements included or incorporated by reference in this Official Statement, including but not limited to Appendix A, constitute "forward looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "forecast," "estimate," "budget," or other similar words. The achievement of certain results or other expectations contained in such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. The state does not plan to issue any updates or revisions to those forward looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

This Preliminary Official Statement is in a form deemed final by the state for the purpose of Rule 15c2-12(b)(1) of the Securities and Exchange Commission, but is subject to revision, amendment and completion in a final Official Statement, which the state will deliver, at the state's expense, to the successful bidder through its designated representative not later than seven business days after the date of the award of the Certificates.

$55,750,000[1]

STATE OF WASHINGTON

CERTIFICATES OF PARTICIPATION, SERIES 2009F

(STATE BOARD FOR COMMUNITY AND TECHNICAL COLLEGES)

Evidencing and Representing Undivided Proportionate Interests of the Owners Thereof in Base Rent Payments to be Made by the State of Washington Pursuant to the Master Financing Lease

PRINCIPAL PAYMENT SCHEDULE

Principal Payment Date (July 1)	Principal Component[2]	Interest Rate	Yield	Price	CUSIP Number
2010	$ 1,360,000				
2011	1,945,000				
2012	1,985,000				
2013	2,045,000				
2014	2,110,000				
2015	2,185,000				
2016	2,270,000				
2017	2,370,000				
2018	2,470,000				
2019	2,585,000				
2020	2,710,000				
2021	2,845,000				
2022	2,985,000				
2023	3,140,000				
2024	3,305,000				
2025	3,480,000				
2026	3,670,000				
2027	3,875,000				
2028	4,090,000				
2029	4,325,000				
Total	$ 55,750,000				

(1) Preliminary, subject to adjustment by the state as provided in the Official Notice of Sale.

(2) Preliminary, subject to adjustment by the state as provided in the Official Notice of Sale. These amounts will constitute Principal Components of the Certificates unless Term Certificates are specified by the successful bidder, in which case these amounts will constitute mandatory sinking fund prepayments of Term Certificates.

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STATE FINANCE COMMITTEE
of the
STATE OF WASHINGTON

James L. McIntire.....State Treasurer and Chairman
Christine O. Gregoire ..... Governor and Member
Brad Owen.....Lieutenant Governor and Member

Ellen L. Evans ..... Deputy State Treasurer—Debt Management

Rob McKenna.....Attorney General

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This publication will be available in alternative formats upon request to the Office of the State Treasurer. This publication is available in PDF format via the Internet at the Office of the State Treasurer's Home Page:

http://www.tre.wa.gov

The availability of this publication via the Internet will not under any circumstances create any implication that there has been no change in the affairs of the state since the date hereof, or that the statements and information herein are current as of any date after the date hereof.

The website of the state or any state department or agency is not part of this Official Statement, and investors should not rely on information presented in the state's website, nor any other website referenced or linked herein, in determining whether to purchase the Certificates. Information appearing on any such website is not incorporated by reference in this statement.

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Information set forth in this summary is qualified by the entire Official Statement.
A full review of the entire Official Statement should be made by potential investors.

SUMMARY DESCRIPTION OF THE CERTIFICATES

Certificates:	The State of Washington Certificates of Participation, Series 2009F (State Board for Community and Technical Colleges) (the "Certificates"), represent undivided proportionate interests in payments ("Base Rent Payments") to be made by the State of Washington (the "state") pursuant to the Master Financing Lease between the Washington Finance Officers Association (the "Corporation"), which is a Washington nonprofit corporation, and the state, acting by and through the State Board for Community and Technical Colleges (the "Agency"). The Certificates are dated their date of initial delivery, which is expected to be August 11, 2009.
Bidding Details:	Bids for the Certificates will be received until **8:30 A.M., PACIFIC TIME, ON JULY 28, 2009,** at the Office of the State Treasurer, Legislative Building, Second Floor, Room 230, 416 Sid Snyder Avenue, Olympia, Washington, attention: Deputy State Treasurer—Debt Management, unless postponed as provided in the Official Notice of Sale. Electronic bids may be submitted only through Parity as provided in the Official Notice of Sale. Bids also may be submitted by telefax to (360) 902-9045.
Interest Payments:	The interest component of Base Rent Payments is payable semiannually on each January 1 and July 1, beginning on January 1, 2010.
Principal Payments:	The Principal Component of Base Rent Payments is payable annually on July 1, beginning July 1, 2010, through and including July 1, 2029.
Prepayment:	The Certificates are subject to optional and extraordinary mandatory prepayment prior to their respective Principal Payment Dates. The Certificates may be subject to mandatory sinking fund prepayment prior to their respective Principal Payment Dates if Term Certificates are specified, as further described herein. See "The Certificates—Prepayment."
Form of Certificates:	The Certificates will be executed and delivered in fully registered, book-entry only form in denominations of $5,000 or any integral multiple thereof.
Fiscal Agent:	The Bank of New York Mellon will act as Fiscal Agent for the Certificates (the "Fiscal Agent"). Payments of principal and interest represented by the Certificates will be paid to the Fiscal Agent which in turn will be obligated to remit such payments to the Depository Trust Company ("DTC"). DTC will be obligated to remit payments to its Participants, who in turn will be obligated to remit such payments to the beneficial owners in accordance with the operational arrangements then in effect at DTC.

Security: The Certificates represent undivided proportionate interests in Base Rent Payments. Except as otherwise described herein, Base Rent Payments due from the state under the Master Financing Lease are payable from Agency Rent Payments to be made pursuant to the Financing Lease between the state and the Agency. The obligation of the Agency to make its Agency Rent Payments is subject to appropriation by the State Legislature and Executive Order reduction by the Governor. The state shall not be obligated to pay the Base Rent Payments other than from appropriated funds of the Agency.

THE MASTER FINANCING LEASE, INCLUDING THE STATE AGENCY FINANCING LEASE ADDENDA, CONSTITUTES A SPECIAL LIMITED OBLIGATION OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. NONE OF THE BASE RENT PAYMENTS, AGENCY RENT PAYMENTS NOR THE CERTIFICATES CONSTITUTE OR REPRESENT DEBT OR GENERAL OBLIGATIONS OF THE STATE OR THE AGENCY, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR THE AGENCY IS PLEDGED TO THE PAYMENT OF ANY SUCH PAYMENTS OF THE PRINCIPAL OR INTEREST EVIDENCED AND REPRESENTED BY THE CERTIFICATES. THE STATE WILL NOT BE OBLIGATED TO PAY THE SAME EXCEPT FROM AGENCY RENT PAYMENTS AND OTHER AMOUNTS AS PROVIDED IN THE MASTER FINANCING LEASE. A DETERMINATION BY THE STATE LEGISLATURE NOT TO APPROPRIATE, OR ANY EXECUTIVE ORDER REDUCTION BY THE GOVERNOR, WOULD NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE TRUST AGREEMENT, THE MASTER FINANCING LEASE OR THE STATE AGENCY FINANCING LEASE ADDENDA.

The Corporation has assigned and transferred to the Fiscal Agent all of its right, title and interest in, to and under the Master Financing Lease, the Site Leases, the Financing Leases, and the Property pursuant to a Master Assignment between the Corporation and the Fiscal Agent.

Purpose: The Certificates are being executed and delivered to finance and/or refinance the costs of acquiring, constructing and/or remodeling three real property projects for the Agency, to capitalize interest allocable to one project through July 1, 2010, and to fund issuance costs with respect to the Certificates. See "Sources and Uses of Funds" and "Use of Proceeds."

Legal Opinion: The Certificates are offered when, as and if executed and delivered, subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Certificate Counsel, and certain other conditions. The proposed form of such opinion is set forth in Appendix C.

Certificate Ratings: The Certificates have been rated "Aa2" by Moody's Investors Service. See "Other Certificate Information—Rating."

Continuing Disclosure: The state will enter into an undertaking for the benefit of the holders of the Certificates to provide certain financial information and operating data to the Municipal Securities Rulemaking Board (the "MSRB") annually and to provide notice to the MSRB of certain events pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (the "Rule"). See "Continuing Disclosure Undertaking."

OFFICIAL NOTICE OF SALE

$55,750,000*
STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION, SERIES 2009F
(STATE BOARD FOR COMMUNITY AND TECHNICAL COLLEGES)

ELECTRONIC BIDS, BIDS SUBMITTED BY FACSIMILE TRANSMISSION AND SEALED BIDS will be received by the State Finance Committee (the "Committee") on behalf of the State of Washington (the "state") for the purchase of the above-referenced certificates (the "Certificates") at

8:30 A.M., PACIFIC TIME, ON JULY 28, 2009.

The Certificates will be sold on an all-or-none basis. Bids must be submitted either electronically via the Qualified Electronic Bid Provider or on the Official Bid Form, which is contained in the Preliminary Official Statement. See "Bidding Detail."

All bids received on behalf of the state by the bid time set forth above on such date will be opened and verified (but not read publicly) beginning at that time, by staff acting for the Designated Treasurer's Representative. Bids received after the bid time will not be considered. Bids will be announced and considered subsequently.

Bidders are referred to the Preliminary Official Statement for additional information regarding the state, the Certificates, the security therefor, and other matters. See "Preliminary Official Statement" hereinafter.

Warnings regarding facsimile bids: A bid submitted by facsimile transmission will not be considered timely unless, at the deadline for submission of bids, the entire Official Bid Form has been received by the receiving fax machine. Neither the state nor Certificate Counsel shall be responsible for, and the bidder expressly assumes the risk of, any incomplete, illegible or untimely bid submitted by facsimile transmission by such bidder, including, without limitation, by reason of garbled transmissions, mechanical failure, engaged telephone or telecommunications lines, or any other cause arising from delivery by facsimile transmission rather than by hand.

Modification; Cancellation; Postponement. Bidders are advised that the Designated Treasurer's Representative may modify the terms of sale of the Certificates prior to the bidding. If such modification occurs, supplemental information with respect to the sale of the Certificates will be placed on The Bond Buyer Wire and Bloomberg Business News (the "News Services") prior to 8:30 a.m., Pacific Time, on the date bids are to be received. In addition, the Designated Treasurer's Representative may cancel or postpone the date and time for the receipt of bids at any time prior to the opening of the bids. Notice of such cancellation or postponement shall be communicated by the Designated Treasurer's Representative through the News Services as soon as practicable following such cancellation or postponement. If a postponement occurs, bids will be received at the hours and place set forth above on any weekday on or prior to October 28, 2009, as the Designated Treasurer's Representative shall determine. Notice of the new sale date, if any, will be given through the News Services not less than 48 hours prior to the time bids are to be received. As an accommodation to bidders, telephonic or facsimile notice of the postponement of the sale date and of the new sale date will be given to any bidder requesting such notice from the

* Preliminary, subject to adjustment by the state as provided in this Official Notice of Sale.

Deputy State Treasurer—Debt Management, telephone: (360) 902-9007. Failure of any bidder to receive such notice by telephone, facsimile or the News Services shall not affect the legality of the sale.

Description of the Certificates

The Certificates represent undivided proportionate interests in payments ("Base Rent Payments") to be made by the state pursuant to the Master Financing Lease, dated as of the Dated Date, between the Washington Finance Officers Association (the "Corporation"), which is a Washington non-profit corporation, and the state, acting by and through the State Board for Community and Technical Colleges (the "Agency").

The Certificates, evidencing and representing principal in the amount of $55,750,000[(1)], will be dated as of their date of initial delivery, which is expected to be August 11, 2009, and will be executed and delivered in fully registered form in denominations of $5,000 or any integral multiple thereof. The Certificates will evidence and represent interest at such rate or rates as shall be fixed at the time of sale, payable semiannually on each January 1 and July 1, beginning on January 1, 2010.

The Certificates. The Principal Component of Base Rent Payments will be payable on July 1 of each year as follows:

Principal Payment Date (July 1)	Principal Component[(2)]
2010	$ 1,360,000
2011	1,945,000
2012	1,985,000
2013	2,045,000
2014	2,110,000
2015	2,185,000
2016	2,270,000
2017	2,370,000
2018	2,470,000
2019	2,585,000
2020	2,710,000
2021	2,845,000
2022	2,985,000
2023	3,140,000
2024	3,305,000
2025	3,480,000
2026	3,670,000
2027	3,875,000
2028	4,090,000
2029	4,325,000
Total	$ 55,750,000

Adjustment of Principal. The Designated Treasurer's Representative has reserved the right to adjust the foregoing Principal Components upward or downward. However, the Principal Component due on any Principal Payment Date may not be adjusted by more than ten percent, and the aggregate of such upward and downward adjustments will not exceed ten percent of the total Principal Component. Notice of any

(1) Preliminary, subject to adjustment by the state as provided in this Official Notice of Sale.

(2) Preliminary, subject to adjustment by the state as provided in this Official Notice of Sale. These amounts will constitute principal components of Certificates unless Term Certificates are specified by the successful bidder, in which case these amounts will constitute mandatory sinking fund prepayments of Term Certificates.

adjustment will be provided by the Designated Treasurer's Representative to the successful bidders no later than 11:00 a.m., Pacific Time, on the sale date. The state shall not be responsible in the event and to the extent that any such adjustment affects the net compensation to be realized by the successful bidder.

Optional Prepayment. The Certificates with Principal Payment Dates on and after July 1, 2020, are subject to optional prepayment prior to their respective Principal Payment Dates, beginning July 1, 2019, upon the exercise by the state of its option to prepay the Principal Components evidenced and represented by those Certificates, plus accrued interest, if any, evidenced and represented thereby to the Prepayment Date without premium.

Extraordinary Mandatory Prepayment. The Certificates are subject to prepayment on any date prior to their respective Principal Payment Dates, as a whole, or in part randomly in Authorized Denominations, upon certain governmental takings, loss of title and casualty loss, from amounts deposited in the Prepayment Account in the amount of the Principal Component evidenced and represented thereby being prepaid, plus accrued interest evidenced and represented thereby to the Prepayment Date, without premium.

Mandatory Prepayment. If any of the Certificates are designated as Term Certificates by the successful bidder, those Certificates will be subject to mandatory sinking fund prepayment prior to their respective Principal Payment Dates on July 1, as applicable, at par plus accrued interest evidenced and represented thereby to the Prepayment Date. See "Term Certificates."

Book-Entry Only. The Certificates will be registered in the name of CEDE & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Certificates. Individual purchases will be made in book-entry form only, and purchasers will not receive physical certificates representing their interests in the Certificates purchased.

Purpose

The Certificates are being executed and delivered to finance and/or refinance the costs of acquiring, constructing and/or remodeling three real property projects for the Agency, to capitalize interest allocable to one project through July 1, 2010, and to fund issuance costs with respect to the Certificates.

Security

The Certificates will evidence and represent undivided proportionate interests in Base Rent Payments. Except as otherwise described herein, Base Rent Payments due from the state under the Master Financing Lease are payable from Agency Rent Payments to be made pursuant to the Financing Leases between the state and the Agency. The obligation of the Agency to make its Agency Rent Payments is subject to appropriation by the State Legislature and Executive Order reduction by the Governor. The state shall not be obligated to pay the Base Rent Payments allocable to the Agency other than from appropriated funds of the Agency.

THE MASTER FINANCING LEASE, INCLUDING THE STATE AGENCY FINANCING LEASE ADDENDA, CONSTITUTES A SPECIAL LIMITED OBLIGATION OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. NONE OF THE BASE RENT PAYMENTS, AGENCY RENT PAYMENTS NOR THE CERTIFICATES CONSTITUTE OR REPRESENT DEBT OR GENERAL OBLIGATIONS OF THE STATE OR THE AGENCY, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR THE AGENCY IS PLEDGED TO THE PAYMENT OF ANY SUCH PAYMENTS OF THE PRINCIPAL OR INTEREST EVIDENCED AND REPRESENTED BY THE CERTIFICATES. THE STATE WILL NOT BE OBLIGATED TO PAY THE SAME EXCEPT FROM AGENCY RENT PAYMENTS AND OTHER AMOUNTS AS PROVIDED IN THE MASTER FINANCING LEASE.

A DETERMINATION BY THE STATE LEGISLATURE NOT TO APPROPRIATE, OR ANY EXECUTIVE ORDER REDUCTION BY THE GOVERNOR, WOULD NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE TRUST AGREEMENT, THE MASTER FINANCING LEASE OR ANY STATE AGENCY FINANCING LEASE ADDENDA.

The Corporation has assigned and transferred to the Fiscal Agent all of its right, title and interest in, to and under the Master Financing Lease, the Property, the Financing Leases, and the Site Leases, each dated as of the Dated Date, pursuant to a Master Assignment between the Corporation and the Fiscal Agent.

Bidding Detail

Electronic Bids. Bids for the Certificates may be submitted electronically via a Qualified Electronic Bid Provider only. The state has deemed Parity as the Qualified Electronic Bid Provider for purposes of receiving electronic bids for the Certificates. By designating a bidding service as the Qualified Electronic Bid Provider, the state does not endorse or encourage the use of such bidding service.

If a bidder submits an electronic bid for the Certificates, such bidder thereby agrees to the following terms and conditions:

(i) If any provision in this Official Notice of Sale with respect to the Certificates conflicts with information or terms provided or required by the Qualified Electronic Bid Provider, this Official Notice of Sale, including any amendments issued through the News Services, shall control.

(ii) Each bidder shall be solely responsible for making necessary arrangements to access the Qualified Electronic Bid Provider for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale.

(iii) The state shall not have any duty or obligation to provide or assure access to the Qualified Electronic Bid Provider to any bidder, and the state shall not be responsible for proper operation of, or have any liability for, any delays, interruptions or damages caused by use of the Qualified Electronic Bid Provider or any incomplete, inaccurate or untimely bid submitted by any bidder through the Qualified Electronic Bid Provider.

(iv) The state is permitting use of the Qualified Electronic Bid Provider as a communication mechanism, and not as the state's agent, to conduct the electronic bidding for the Certificates. The Qualified Electronic Bid Provider is acting as an independent contractor, and is not acting for or on behalf of the state.

(v) The state is not responsible for ensuring or verifying bidder compliance with the Qualified Electronic Bid Provider's procedures.

(vi) The state may regard the electronic transmission of a bid through the Qualified Electronic Bid Provider (including information regarding the purchase price for the Certificates and interest rates for any maturity of the Certificates) as though the information were submitted on the Official Bid Form and executed on the bidder's behalf by a duly authorized signatory.

(vii) If the bidder's bid is accepted by the Committee, the Official Bid Form, this Official Notice of Sale and the information that is transmitted electronically through the Qualified Electronic Bid Provider shall form a contract, and the bidder shall be bound by the terms of such contract.

(viii) Information provided by the Qualified Electronic Bid Provider to bidders shall form no part of any bid or of any contract between the successful bidder and the state unless that information is included in this Official Notice of Sale or in the Official Bid Form provided by the state.

Further information about the Qualified Electronic Bid Provider, including any fees charged, may be obtained by calling Bidcomp/Parity at (212) 849-5021.

Faxed Bids. The Official Bid Form, which is contained in the Preliminary Official Statement, may be submitted via facsimile transmission to (360) 902-9045.

Sealed Bids. Sealed bids for the purchase of the Certificates may be submitted on the Official Bid Form for the Certificates in a sealed envelope to the Office of the State Treasurer, Legislative Building, Second Floor, Room 230, 416 Sid Snyder Avenue, Olympia, Washington, attention: Deputy State Treasurer—Debt Management. The Official Bid Form is contained in the Preliminary Official Statement.

Terms of Bids. Bids for the Certificates must be unconditional, and for not less than all of the Certificates. By submitting a bid, each bidder agrees to all of the terms and conditions of this Official Notice of Sale, as they may be modified in accordance herewith. Bids for the Certificates must be submitted on the Official Bid Form attached to this Official Notice of Sale or electronically via the Qualified Electronic Bid Provider. Bids may not be withdrawn or revised after the time that bids are due.

Interest Rates Bid. Bidders for the Certificates may specify any number of interest rates in multiples of one-eighth or one-twentieth of one percent (1/8 or 1/20 of 1%), or both. Bidders may not specify more than one interest rate with respect to Certificates with a common Principal Payment Date. Each Certificate must evidence and represent interest from its date to its respective Principal Payment Date. Each Principal Component must be reoffered at a yield that will produce a price of not less than 96 percent.

Premium and Discount. No bid will be considered that offers to pay an amount less than 98 percent nor more than 105 percent of the aggregate Principal Component evidenced and represented by the Certificates.

Basis of Award

The Certificates will be sold to the bidder submitting a bid in conformance with this Official Notice of Sale that produces the lowest true interest cost ("TIC") to the state, based on the bid price, the interest rates specified in the Official Bid Form and the Principal Components identified in this Official Notice of Sale. The lowest TIC will be the rate necessary, when using semiannual compounding on a 360-day basis, to discount the principal and interest components with respect to the Certificates from the respective Principal Payment Dates to the date of the Certificates and to the price bid.

The successful bidder shall be bound to purchase the Certificates with the Principal Components specified in this Official Notice of Sale, with adjustments, if any, as permitted herein, at such price, and with such interest rates, as are specified in its bid. If the aggregate total of the Principal Components of the Certificates is adjusted, any aggregate premium or discount bid by the successful bidder for such Certificates shall be adjusted proportionately. If there are adjustments to Principal Components payable on individual Principal Payment Dates, the premium or discount bid by the successful bidder will be adjusted to take into account original issue premiums or discounts for those Principal Payment Dates.

Right of Rejection

The State Treasurer reserves the right to reject any or all bids and to waive any irregularity or informality in any bid. In the event that two or more bidders submit bids at the same lowest TIC, the Designated Treasurer's Representative will determine which bidder will be awarded the Certificates in his sole discretion.

Term Certificates

Bidders have the option to designate the total Principal Component payable on any two or more consecutive Principal Payment Dates for the Certificates as mandatory sinking fund prepayments with respect to the Term Certificates. If no Term Certificates are designated, the Principal Components represented by Certificates payable on each Principal Payment Date will be as set forth on page i of the Preliminary Official Statement, subject to adjustment as provided in this Official Notice of Sale.

Good Faith Deposit

The successful bidder shall deliver a good faith deposit in the amount of $850,000 to the State Treasurer. The good faith deposit may be paid in one of the following ways:

(i) By federal funds wire transfer delivered no later than 90 minutes following the successful bidder's receipt of the verbal award. Wiring instructions will be provided to the successful bidder at the time of the verbal award.

(ii) By certified or bank cashier's check made payable to the order of the State Treasurer. A certified or cashier's check must be delivered to the State Treasurer prior to the opening of the bids.

(iii) By a financial surety bond from an insurance company licensed to issue such a bond in the State of Washington and preapproved by the state. Such bond must be submitted to the Treasurer's Designated Representative, the Deputy State Treasurer—Debt Management, telephone: (360) 902-9007, facsimile: (360) 902-9045, prior to the opening of the bids. If the Certificates are awarded to a bidder using a financial surety bond, that bidder must submit its deposit to the state in the form of a wire transfer or a certified or cashier's check not later than 12:00 noon, Pacific Time, on the next business day following the award, and if not received by that time, the state may draw upon the financial surety bond to satisfy the deposit requirement.

Any good faith deposit submitted by a bidder whose bid is not accepted shall be returned promptly by the state, but the state shall not be liable for interest for any delay in such return.

The good faith deposit of the successful bidder for the Certificates will be retained by the state as security for the performance of such bid, and will be applied to the purchase price of the Certificates on the delivery of the Certificates to the successful bidder. Pending delivery of the Certificates, the good faith deposit may be invested for the sole benefit of the state.

If the Certificates are ready for delivery and the successful bidder fails to complete the purchase of the Certificates by August 11, 2009, the good faith deposit will be forfeited to the state, and, in that event, the Committee may accept the next best bid or call for additional proposals.

Insurance

The State Treasurer may provide information to certain municipal bond insurance companies insuring bonds in the primary market in order to pre-qualify the Certificates for municipal bond insurance. Bids for the Certificates shall not be conditioned upon obtaining municipal bond insurance or any other credit enhancement. If the Certificates qualify for issuance of any policy of municipal bond insurance or commitment therefor, *any purchase of such insurance or commitment therefor shall be at the sole option*

and expense of the successful bidder and any increased costs of issuance of the Certificates resulting by reason of such insurance shall be paid by the bidder and shall not, in any event, be paid by the state. Any failure of such Certificates to be so insured or of any such policy of insurance to be issued shall not in any way relieve the successful bidder of its obligation to purchase such Certificates. Payment of any insurance premium and satisfaction of any conditions to the issuance of a municipal bond insurance policy shall be the sole responsibility of the successful bidder. In particular, the state will neither amend nor supplement the financing documents in any way nor will it enter into any additional agreements with respect to the provision of any such policy.

FAILURE OF THE INSURANCE PROVIDER TO ISSUE ITS POLICY SHALL NOT CONSTITUTE CAUSE FOR A FAILURE OR REFUSAL BY THE SUCCESSFUL BIDDER TO ACCEPT DELIVERY OF OR PAY FOR THE CERTIFICATES.

The successful bidder must provide the state with the municipal bond insurance commitment and information with respect to the municipal bond insurance policy and the insurance provider for inclusion in the final Official Statement within two business days following the award of the bid by the state. The state will require delivery, on or prior to the date of delivery of the Certificates, of:

(i) a certificate from the insurance provider regarding the accuracy and completeness of the information provided for inclusion in the Official Statement,

(ii) an opinion of counsel to the insurance provider regarding the enforceability of the municipal bond insurance policy, and

(iii) a certificate with respect to certain tax matters,

each in form reasonably satisfactory to the state, Certificate Counsel and the successful bidder.

Delivery of Certificates

General. On or about August 11, 2009, the Certificates will be delivered to DTC, or to the Fiscal Agent on behalf of DTC through Fast Automated Securities Transfer, against payment of the purchase price to the state in immediately available federal funds less the amount of the good faith deposit.

On or before the date of delivery of and payment for the Certificates, the successful bidder shall provide to the state such information and certifications as Certificate Counsel to the state deems necessary to determine the yield with respect to the Certificates for purposes of Section 148 of the Internal Revenue Code of 1986, as amended.

The successful bidder for the Certificates must actually reoffer all of the Certificates to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers).

The Certificates will be executed and delivered in book-entry form only in accordance with the letter of representations from the state to DTC. As of the date of award of the Certificates, the successful bidder must either participate in DTC or must clear through or maintain a custodial relationship with an entity that participates in DTC.

The state will furnish to the successful bidder one transcript of proceedings; additional transcripts will be furnished at the successful bidder's expense.

If, prior to the delivery of any of the Certificates, the interest component evidenced and represented thereby shall become includable in the gross income of the recipients thereof for federal income tax

purposes, or if legislation which would have the same effect if adopted into law is passed by either House of Congress or proposed by a joint conference committee, the successful bidder, at its option, may be relieved of the obligation to purchase the Certificates, and the state, at its option, may be relieved of the obligation to deliver the Certificates.

Cancellation of Sale. The successful bidder has the right, at its option, to cancel its obligation to purchase the Certificates for which it submitted the winning bid if the state fails to cause the execution and delivery of such Certificates within 45 days from the award to the successful bidder, and in such event the successful bidder will be entitled only to the return of the principal amount of the good faith deposit.

CUSIP Numbers

It is anticipated that CUSIP identification numbers will be printed on the Certificates. Neither the failure to print CUSIP numbers on any Certificate nor any error with respect thereto will constitute cause for failure or refusal by the successful bidder therefor to accept delivery of and pay for the Certificates. The state is responsible for obtaining CUSIP numbers, and all expenses for printing CUSIP numbers on the Certificates shall be paid for by the state, but the CUSIP Service Bureau charge for assignment of those numbers shall be the responsibility of and shall be paid for by the successful bidder.

Tax Matters

The Preliminary Official Statement provides information regarding the treatment of interest evidenced and represented by the Certificates for federal income tax purposes. See "Tax Matters" in the Preliminary Official Statement.

Legal Opinion

The state will furnish to the successful bidder for the Certificates the legal opinion of Foster Pepper PLLC, Certificate Counsel, substantially in the form set forth in Appendix C to the Preliminary Official Statement, which opinion will not address the accuracy or completeness of the Official Statement.

Litigation

No litigation is pending or, to the knowledge of the Designated Treasurer's Representative, threatened that seeks to restrain or enjoin the sale, execution or delivery of the Certificates or in any other manner affects the validity of the Certificates or the proceedings or authority pursuant to which they are to be sold, executed and delivered, or the validity or enforceability of the Trust Agreement, the Master Financing Lease, the Financing Leases, or the Master Assignment, and the Designated Treasurer's Representative will furnish a certificate to the foregoing effect on and as of the date of delivery of the Certificates.

Closing Documents

As a condition to the obligations of the successful bidder to accept delivery of and pay for the Certificates, the successful bidder will be furnished as of the date of closing a certificate of the Designated Treasurer's Representative, certifying that:

(i) as of the date of the Official Statement furnished concerning the Certificates, the Official Statement (other than the information therein regarding DTC and its book-entry only system and regarding any municipal bond insurer and its municipal bond insurance policy, and information provided by the successful bidder regarding reoffering prices and yields) did not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, and

(ii) to his knowledge, since the date of the Official Statement, there has been no material adverse change in the financial condition or affairs of the state other than as disclosed or contemplated in the Official Statement.

Continuing Disclosure

The state will enter into an undertaking for the benefit of the holders of the Certificates to provide certain financial information and operating data to certain information repositories annually and to provide notice to the Municipal Securities Rulemaking Board of certain events pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (the "Rule"). See "Continuing Disclosure Agreement" in this Preliminary Official Statement. The state has never failed to comply in any material respect with any previous undertakings entered into pursuant to the Rule.

Preliminary Official Statement

The Preliminary Official Statement is in a form deemed final by the state for the purpose of the Rule, but is subject to revision, amendment and completion in a final Official Statement, which the state will deliver at its own expense, to the successful bidder (in a quantity not to exceed 250 copies) not later than seven business days after the state's acceptance of such bidder's proposal.

The successful bidder agrees to file, or cause to be filed, the final Official Statement with a nationally recognized municipal securities information repository designated by the Securities and Exchange Commission within one business day following the receipt of the Official Statement from the state.

The successful bidder also agrees:

(i) to provide to the State Treasurer, in writing, promptly after the acceptance of the bid, pricing and other related information necessary for completion of the final Official Statement,

(ii) to disseminate to all members of the underwriting syndicate, if any, copies of the final Official Statement, including any supplements prepared by the state, and

(iii) to take any and all actions necessary to comply with applicable Securities and Exchange Commission and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Certificates to ultimate purchasers, including without limitation, the delivery of a final Official Statement to each investor who purchases Certificates.

Additional information may be obtained from the undersigned at the Office of the State Treasurer, Legislative Building, Second Floor, Room 230, 416 Sid Snyder Avenue, Olympia, Washington 98501 (telephone: (360) 902-9007). The Preliminary Official Statement (with Official Bid Form included) may be obtained from i-Deal Prospectus, a service of i-Deal LLC, at *www.i-dealprospectus.com*, telephone (212) 849-5024.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

By: /s/_____
Deputy State Treasurer—Debt Management

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OFFICIAL BID FORM

$55,750,000[1]
STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION, SERIES 2009F
(STATE BOARD FOR COMMUNITY AND TECHNICAL COLLEGES)

State Finance Committee, State Treasurer
Office of the State Treasurer
Legislative Building, Second Floor, Room 230
416 Sid Snyder Avenue
Olympia, Washington 98501

For $55,750,000[1] aggregate Principal Component evidenced and represented by the State of Washington Certificates of Participation, Series 2009F (State Board for Community and Technical Colleges), dated as of their date of initial delivery (expected to be August 11, 2009), payable on July 1 in the years 2010 through and including 2029, in the principal amounts shown herein, and with interest evidenced and represented thereby payable semiannually on January 1 and July 1, beginning on January 1, 2010, from the Dated Date at the rate or rates specified herein,

we will pay $_____
(must be no less than $54,635,000[1] and no more than $58,537,500[1]).

The schedule of payment dates of the Principal Component of Base Rent Payments (the "Principal Payment Dates") and the interest rate or rates upon which this bid is based, with the interest computed from their date of initial delivery, to the Principal Payment Dates of the Certificates, is as follows:

Principal Payment Date (July 1)	Principal Component[2]	Interest Rate	Principal Payment Date (July 1)	Principal Component[2]	Interest Rate
2010	$ 1,360,000	_____%	2020	$ 2,710,000	_____%
2011	1,945,000	_____	2021	2,845,000	_____
2012	1,985,000	_____	2022	2,985,000	_____
2013	2,045,000	_____	2023	3,140,000	_____
2014	2,110,000	_____	2024	3,305,000	_____
2015	2,185,000	_____	2025	3,480,000	_____
2016	2,270,000	_____	2026	3,670,000	_____
2017	2,370,000	_____	2027	3,875,000	_____
2018	2,470,000	_____	2028	4,090,000	_____
2019	2,585,000	_____	2029	4,325,000	_____

(1) Preliminary, subject to adjustment by the state as provided in the Official Notice of Sale.

(2) Preliminary, subject to adjustment by the state as provided in the Official Notice of Sale. These amounts will constitute Principal Components of the Certificates unless Term Certificates are specified by the successful bidder, in which case these amounts will constitute mandatory sinking fund prepayments of Term Certificates.

We hereby specify that the following Principal Payment Dates shall be aggregated into Term Certificates payable on July 1 of the following years in the following Principal Components (leave blank if no Term Certificates are specified):

Principal Payment Dates (Month/Year) Aggregated	Term Certificate Payment Date (Month/Year)	Total Principal Component
_____ through _____	_____	_____
_____ through _____	_____	_____

The following is submitted for informational purposes only and is not a part of the bid:

Total Coupon Interest ..... $_____

Plus Discount/Less Premium..... $_____

Net Interest ..... $_____

Net Effective Rate ..... _____%

True Interest Cost ..... _____%

This bid is submitted in accordance with and subject to all provisions contained in the Official Notice of Sale for the Certificates, which provisions are incorporated herein and made a part hereof by this reference.

We have made provision for a good faith deposit in the amount of $850,000 through one of the following options as provided for in the Official Notice of Sale:

(i) By federal funds wire transfer to be delivered to the State Treasurer no later than 90 minutes following the successful bidder's receipt of the verbal award;

(ii) By certified or bank cashier's check made payable to the order of the State Treasurer and delivered to the State Treasurer prior to the opening of the bids, which check is to be returned to us if this bid is not accepted. If this bid is accepted, said check shall be deposited and used as set forth in the following paragraph; or

(iii) By a financial surety bond from an insurance company licensed to issue such a bond in the State of Washington and preapproved by the state. If this bid is accepted, we will provide a federal funds wire transfer to the State Treasurer not later than 12:00 noon, Pacific Time, on the next business day following the award.

Such good faith deposit is for liquidated damages in the event that we fail to accept said Certificates when ready for delivery or fail to complete payment therefor in accordance with the terms of this bid. If this bid is accepted, the good faith deposit will be deposited by the State Treasurer and applied to the purchase price of the Certificates when the same are delivered and paid for under the terms of this bid, or shall be retained as and for liquidated damages in case we fail to accept said Certificates when ready for delivery or fail to complete payment therefor in accordance with the terms of this bid.

Certificate Insurer (if any): _____

Certificate Insurance Premium (if any): _____

Respectfully submitted this 28th day of July, 2009,

_____

PRELIMINARY OFFICIAL STATEMENT

$55,750,000*

STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION, SERIES 2009F
(STATE BOARD FOR COMMUNITY AND TECHNICAL COLLEGES)

Evidencing and Representing Undivided Proportionate Interests of the Owners Thereof in Base Rent Payments to be Made by the State of Washington Pursuant to the Master Financing Lease

INTRODUCTION

This Preliminary Official Statement, including the cover hereof and the appendices hereto, was prepared to provide certain information relating to the sale and delivery by the State of Washington (the "state") of the above-captioned certificates of participation (the "Certificates"). Capitalized terms used herein, if not specifically defined, are used as defined in Appendix I to the Trust Agreement, referred to below.

The proceeds of the Certificates will be used to finance and/or refinance the acquisition or construction of certain real property (the "Projects") for the benefit of the State Board for Community and Technical Colleges (the "Agency") and to fund issuance costs with respect to the Certificates.

The Certificates are being executed and delivered by the Fiscal Agent pursuant to a Trust Agreement with respect to the Certificates (the "Trust Agreement"), dated as of the Dated Date, among the Fiscal Agent, the State Treasurer and the Washington Finance Officers Association (the "Corporation"), a Washington nonprofit corporation. The Certificates represent undivided proportionate interests in payments ("Base Rent Payments") to be made under a Master Financing Lease (the "Master Financing Lease") dated as of the Dated Date, between the Corporation and the state. The Bank of New York Mellon will act as Fiscal Agent for the Certificates (the "Fiscal Agent").

The respective parcels of the real property on which the respective Projects of the Agency are located (collectively, the "Sites") are being leased to the Corporation by the Agency pursuant to separate Site Leases, each dated as of the Dated Date (the "Site Leases"), between the Agency and the Corporation. Pursuant to the Master Financing Lease, the state is leasing the Sites and the Projects thereon (collectively, the "Property") from the Corporation. The state in turn is subleasing each parcel of Property back to the Agency pursuant to a separate State Agency Financing Lease Addendum (collectively, the "Financing Leases"), each dated as of the Dated Date, between the state and the Agency. The Agency will make Agency Rent Payments to the state pursuant to the Financing Leases for the sublease of the respective parcels of the Property.

The Agency Rent Payments payable by the Agency pursuant to the Financing Leases are, in the aggregate, at least equal to the corresponding Base Rent Payments payable by the state pursuant to the Master Financing Lease. Pursuant to the Master Assignment (the "Master Assignment"), dated as of the Dated Date, the Corporation is assigning and transferring to the Fiscal Agent, without recourse, all of its rights to the Sites pursuant to the Site Leases, all of its rights to receive the Base Rent Payments from the state pursuant to the Master Financing Lease, its right to take all actions, exercise all remedies and give all consents under and pursuant to the Site Leases and the Master Financing Lease, and all of its remaining right, title and interest in, to and under the Site Leases, the Master Financing Lease, the Financing Leases,

* Preliminary, subject to adjustment by the state as provided in the Official Notice of Sale.

and the Property. For summaries of the Trust Agreement, the Master Financing Lease, the Financing Leases, the Master Assignment, and the Site Leases, see Appendix B—Definitions and Summary of Certain Legal Documents.

Except as otherwise described herein, Base Rent Payments due from the state under the Master Financing Lease are payable from Agency Rent Payments to be made pursuant to the Financing Leases. The obligation of the Agency to make its Agency Rent Payments is subject to appropriation by the State Legislature and Executive Order reduction by the Governor. The state shall not be obligated to pay the Base Rent Payments allocable to the Agency other than from appropriated funds of the Agency.

Numerous state agencies including, in particular, the Office of the State Treasurer, the Department of Revenue, the State Attorney General, the Office of Economic and Revenue Forecast Council, the Department of Retirement Systems, and the Office of Financial Management, have assisted the State Finance Committee (the "Committee") in assembling the information contained herein.

Document Summaries

Certain financial information regarding the state has been taken or derived from the audited financial statements and other financial reports of the state. Reference should be made to said audited financial statements and other financial reports, and their accompanying notes, for complete information. Copies thereof are available for inspection at the Office of the State Treasurer upon request.

The summaries and descriptions herein of the Certificates, the Trust Agreement, the Master Financing Lease, the Financing Leases, the Master Assignment, the Site Leases, the Committee's authorizing resolutions, and certain provisions of state law do not purport to be complete and are qualified in their entirety by reference to the complete provisions thereof, copies of which are available for inspection at the Office of the State Treasurer upon request. Any statements herein involving estimates, projections or forecasts are to be construed as such, rather than as statements of fact or representations that such estimates, projections or forecasts will be realized.

State Finance Committee

The Committee is composed of the Governor, Lieutenant Governor and State Treasurer, the latter being designated by law as Chairman. Pursuant to Chapter 3, Laws of 1981 (RCW 43.33.030), the Office of the State Treasurer provides administrative support to the Committee. By statutory provision, the Committee is delegated authority to supervise and control the issuance of all state bonds and approve all financing contracts and certificate of participation issues. A Deputy State Treasurer acts as recording officer for the Committee and is responsible for the administration of its official duties in accordance with prescribed policies of the Committee.

THE CERTIFICATES

Authorization

The state is authorized by chapter 39.94 RCW, as amended (the "Act"), to enter into financing contracts, for the state and its agencies or on behalf of certain local agencies specified in the Act, to acquire real and personal property to be used by the state or its agencies or such local agencies, and to issue certificates of participation in those contracts. Financing contracts may include, but are not limited to, conditional sales contracts, financing leases, lease purchase contracts, and refinancing contracts that provide for payment by the state over a term of more than one year.

All financing contracts of the state must be approved by the Committee, and financing contracts for the acquisition of real property by the state must receive the prior approval of the State Legislature. The Washington Supreme Court in *State Department of Ecology v. State Finance Committee*, 116 Wn.2d 246,

804 P.2d 1241 (1991), held that a financing contract for the state's Department of Ecology did not create debt within the meaning of Article 8, Section 1, of the Washington State Constitution.

The Committee, by Resolution No. 987, adopted on October 7, 2003, authorized and approved the execution and delivery of certificates of participation (including the Certificates) in series from time to time in payments to be made by the state pursuant to master financing contracts. The Committee also approved the forms of the Trust Agreement, the Master Financing Contract, the State Agency Financing Addenda, and the Master Assignment, and authorized and approved the execution and delivery thereof in connection with each series of certificates of participation. On June 9, 2009, the Committee approved a Finance Plan under which the aggregate principal amount for financing contracts of the state, including certificates of participation therein, to be outstanding during the 2009-11 Biennium was set at $1,460,000,000 plus financing expenses and required reserves, including certificates expected to be issued to finance acquisition of real estate and equipment for state agencies and local governments.

The State Legislature authorized the Agency to enter into the financing contracts represented by the Financing Leases pursuant to Chapter 497, Laws of 2009, Section 6009(2)(g), (i) and (k).

General Description

The Certificates represent undivided proportionate interests in Base Rent Payments to be made by the state pursuant to the Master Financing Lease. The Certificates will be dated as of their date of initial delivery. The principal components of Base Rent Payments (the "Principal Components") evidenced and represented by the Certificates will be payable on the dates (each a "Principal Payment Date") and in the amounts as shown on page i of this Official Statement. The Certificates will be executed and delivered as fully registered certificates without coupons in denominations of $5,000 or any integral multiple thereof.

The interest component of Base Rent Payments will be payable semiannually on January 1 and July 1 of each year (each an "Interest Payment Date" and together with Principal Payment Dates, "Certificate Payment Dates"), beginning on January 1, 2010, at the rates shown on page i of this Official Statement. Such interest will be computed using a 360-day year comprised of twelve 30-day months.

So long as the Depository Trust Company ("DTC") book-entry system is used for the Certificates, principal and interest represented by the Certificates will be paid to DTC for distribution to its Participants and payment to the beneficial owners of the Certificates. See Appendix E—Book-Entry System.

If at any time the Certificates are not in book-entry form, the interest component of the Base Rent Payments will be payable to the person whose name appears on the certificate register of the Fiscal Agent as of the close of business on the 15th day of the month immediately preceding the month in which the Interest Payment Date occurs (the "Record Date"), whether or not such day is a business day. Interest is to be paid by check or draft mailed by first class mail on each Interest Payment Date to each Owner at the address as it appears on the certificate register of the Fiscal Agent, or at the request of any Owner of at least $1,000,000 in aggregate principal amount of Certificates, by wire transfer within the United States of America of immediately available funds to the bank account specified in writing by such Owner to the Fiscal Agent no later than the applicable Record Date. Payment of the Principal Component or Prepayment Price evidenced and represented by each Certificate is required to be made on the Principal Payment Date upon presentation and surrender thereof at the principal corporate trust office of the Fiscal Agent.

Prepayment

Optional Prepayment. The Certificates with Principal Payment Dates on and after July 1, 2020, are subject to optional prepayment prior to their respective Principal Payment Dates, beginning July 1, 2019, upon the exercise by the state of its option to prepay the Principal Components evidenced and represented

by those Certificates, at par plus accrued interest, if any, evidenced and represented thereby to the Prepayment Date, without premium.

Extraordinary Mandatory Prepayment. The Certificates are subject to prepayment on any date prior to their respective Principal Payment Dates, as a whole, or in part by lot in Authorized Denominations, upon certain governmental takings, loss of title and casualty loss, from amounts deposited in the Prepayment Account in the amount of the Principal Component evidenced and represented thereby being prepaid, plus accrued interest evidenced and represented thereby to the Prepayment Date, without premium.

Mandatory Prepayment. The Term Certificates with a Principal Payment Date of July 1, 20__, are subject to mandatory prepayment prior to their stated Principal Payment Date, in part by lot, from Base Rent Payments on the Principal Payment Dates on and after July 1, 20__, in the amount of the Principal Component evidenced and represented thereby being prepaid, plus accrued interest evidenced and represented thereby to the Prepayment Date, without premium, as follows:

Mandatory Prepayment Date	**Principal Component**	**Mandatory Prepayment Date**	**Principal Component**
	$		$

The amount of each prepayment will be reduced as provided in the Trust Agreement in the event and to the extent of any extraordinary mandatory prepayment.

Selection of Certificates for Prepayment. If the Certificates are in book-entry form at the time of prepayment, and less than all of the Base Rent Payments are being prepaid, the Fiscal Agent will direct DTC to instruct the DTC Participants to select such Certificates for prepayment *pro rata* among all Owners of the Principal Payment Date being prepaid. Neither the state nor the Fiscal Agent will have responsibility to insure that DTC or its participants properly select such Certificates for prepayment. If the Certificates are not then in book-entry form at the time of mandatory prepayment, the Fiscal Agent shall select such Certificates for prepayment, *pro rata* among Owners, to the greatest extent possible, subject to maintaining Authorized Denominations.

Notice of Prepayment. Notice of prepayment is required to be given by the Fiscal Agent not less than thirty (30) nor more than sixty (60) days prior to the Prepayment Date, to the State Treasurer, the Owner of each Certificate affected at the address shown on the Certificate Register on the date such notice is mailed, the Securities Depositories and one or more Information Services. Each notice of prepayment must state the date of such notice, the date of execution and delivery of the Certificates, the Prepayment Date, the Prepayment Prices, the place or places of prepayment (including the name and appropriate address or addresses of the Fiscal Agent), the CUSIP number of the Certificates being prepaid, the source of the funds to be used for such prepayment, the Principal Component due evidenced and represented by the Certificates, the distinctive certificate numbers of the Certificates or portions thereof to be prepaid, the rate or rates of interest evidenced and represented by the Certificates to be prepaid, and the Principal Payment Dates of the Certificates to be prepaid. The notice also must state that the interest evidenced and represented by the Certificates designated for prepayment will cease to accrue from and after such Prepayment Date, and that on said date there will become due and payable with respect to each of the prepaid Certificates the Prepayment Price of the Certificate to be prepaid, and interest, if any, accrued thereon to the Prepayment Date. Such notice will require that such Certificates be then surrendered at the address or addresses of the Fiscal Agent specified in the prepayment notice.

Partial Prepayment. Upon surrender of any Certificate prepaid in part only, the Fiscal Agent is required to provide a replacement Certificate or Certificates evidencing and representing a principal amount equal

to the portion of the Principal Component evidenced and represented by such Certificate not prepaid, and deliver it to the Owner thereof. The Certificate so surrendered is required to be cancelled by the Fiscal Agent.

Book-Entry System

The Certificates initially will be delivered under a book-entry only system, registered in the name of CEDE & Co., as nominee of DTC, acting as depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers will not receive certificates representing their beneficial ownership interests in the Certificates. For information about the DTC book-entry system, see Appendix E—Book-Entry System.

Defeasance

If money and/or certain types of securities maturing at such times and bearing interest to be earned thereon in amounts sufficient to prepay the principal and interest evidenced and represented by any or all of the Certificates in accordance with their terms and the terms of the Trust Agreement and the Master Financing Lease are set aside irrevocably in a special trust account to effect such prepayment and are pledged for such purpose, then no further payments are required to be made to pay or secure the payment of such principal and interest evidenced and represented by such Certificates, and such Certificates will be deemed thereafter not to be outstanding. See Appendix B—Definitions and Summary of Certain Legal Documents.

SOURCES AND USES OF FUNDS

Proceeds of the Certificates will be used to pay all or a portion of the costs of acquiring, constructing and/or remodeling three real property projects for the Agency, to capitalize interest allocable to one project through July 1, 2010, and to pay costs of issuance of the Certificates. See "Use of Proceeds."

The following table shows the sources and uses of funds:

SOURCES	
Principal Component of Certificates	$
Net Original Issue Premium (Discount)	
TOTAL SOURCES	$
USES	
Deposit to Project Fund (Real Property)	$
Capitalized Interest Through July 1, 2010	
Costs of Issuance[1]	
Underwriting Spread[2]	
TOTAL USES	$

(1) Includes fees for services of rating agencies, financial advisor and bond counsel, and other costs.

(2) Includes bond insurance premium, if any, which is paid by the Underwriter.

USE OF PROCEEDS

The real property projects being funded from proceeds of the Certificates are:

(i) acquisition of a two-floor office/classroom condominium unit on behalf of Green River Community College;

(ii) construction of an academic building with classrooms on behalf of Green River Community College; and

(iii) construction of a student fitness and health center on behalf of Everett Community College.

The Colleges

Green River Community College. Green River Community College is a two-year public college that offers degrees and certificates in academic and professional/technical programs, as well as courses in continuing education and developmental education. The main campus of the college is located on approximately 250 acres, just east of Auburn, Washington, and began its operations at this site in 1965. The college has approximately 147 full-time faculty and 254 part-time faculty. The student population is approximately 9,600 full and part time students.

Everett Community College. Everett Community College is a two-year public college that offers degrees and certificates in academic and professional/technical programs, as well as courses in continuing education and developmental education. The main campus of the college is located in north Everett on 22 acres. The college began operations in 1941, and has approximately 130 full-time faculty and 335 part-time faculty. The student population is approximately 10,000 full and part time students.

The Projects

Green River Community College—HS Building Project. On behalf of Green River Community College, the Agency will construct an academic building with classrooms on the college's main campus. The college entered into a construction contract in June 2009, and construction is expected to be completed in January 2011. The total construction cost is estimated at $26,530,122 and will be paid with proceeds of the Certificates. The financing contract for this project will have a 20-year term.

Green River Community College—Kent Station II Project. On behalf of Green River Community College, the Agency will acquire a two-floor office/classroom condominium unit at the Kent Station development in the city of Kent. The acquisition is adjacent to an existing college building at Kent Station, and the two facilities will be connected by a skybridge. The project will be used for classrooms, laboratories, and faculty and staff offices. The acquisition closed in June 2009, at a total acquisition cost of $18,670,000, of which $8,000,000 will be reimbursed with proceeds of the Certificates. The financing contract for the project will have a 20-year term.

Everett Community College Project. On behalf of Everett Community College, the Agency will construct a student fitness and health center. The center will be approximately 49,000 square feet and include a gymnasium and facilities for physical education, health programs, and instructional staff. The college has entered into a construction contract and expects to start construction by the end of July 2009. Construction is expected to be completed in September 2010. The total project cost is estimated at $19,474,246 and will be paid with proceeds of the Certificates. Proceeds of the Certificates will also be used to provide for capitalized interest through July 1, 2010. The financing contract for the project will have a 20-year term.

STATE BOARD FOR COMMUNITY AND TECHNICAL COLLEGES

In 1967, the State Legislature created a system of state-funded community colleges in Washington and established a State Board of Community College Education, with members appointed by the Governor. In 1991, the State Legislature made significant changes to the community college system and the title of the board was changed to the State Board for Community and Technical Colleges.

The Agency's primary responsibilities are to submit single system operating and capital budget requests to the Governor and the State Legislature, to represent the community and technical colleges on state-level policy issues, to allocate funds to the colleges, to provide research and information about the community and technical college system, and to provide policy guidance to the colleges.

The Agency's activities are administered by an executive director, who is appointed by the Agency. The Agency's office is located in Olympia and is divided into three divisions, each led by division directors who report directly to the executive director. Appropriations and full-time equivalent ("FTE") employment for the Agency in the current and prior two biennia are shown below.

Biennium	State Appropriations	FTE Employees
2009-2011	$1,374,875,000	15,147[(1)]
2007-2009	1,448,199,000	14,900[(2)]
2005-2007	1,140,000,000	12,014[(2)]

(1) Budgeted.

(2) Actual.

SOURCES OF PAYMENT AND SECURITY FOR THE CERTIFICATES

Base Rent Payments

The Certificates will evidence and represent undivided proportionate interests in the Base Rent Payments payable by the state pursuant to the Master Financing Lease. Pursuant to the Master Financing Lease, the Corporation will lease the Property to the state. In consideration thereof the state is required to make Base Rent Payments to the Fiscal Agent, as assignee of the Corporation, during the term of the Master Financing Lease. Base Rent Payments are composed of Principal Components and/or Interest Components. Base Rent Payments are due on each Certificate Payment Date.

Except as otherwise described below, Base Rent Payments due from the state under the Master Financing Lease are payable solely from Agency Rent Payments to be made by the Agency pursuant to the Financing Leases. The total of the Agency Rent Payments payable by the Agency on each Agency Rent Payment Date pursuant to the Financing Leases is at least equal to the Base Rent Payments payable by the state pursuant to the Master Financing Lease on the next succeeding Base Rent Payment Date. Agency Rent Payments are due one month prior to the corresponding Base Rent Payment Date.

Pursuant to the Master Assignment, the Corporation is assigning and transferring to the Fiscal Agent, without recourse, all of its rights to receive the Base Rent Payments from the state pursuant to the Master Financing Lease, its right to take all actions, exercise all remedies and give all consents under and pursuant to the Master Financing Lease and all of its remaining right, title and interest in, to and under the Master Financing Lease , the Site Leases and the Financing Leases, and in and to the Property.

Limited Obligations of State

THE MASTER FINANCING LEASE AND THE STATE AGENCY FINANCING LEASE ADDENDA CONSTITUTE A SPECIAL, LIMITED OBLIGATION OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. NEITHER THE BASE RENT PAYMENTS NOR THE CERTIFICATES

CONSTITUTE OR REPRESENT DEBT OR GENERAL OBLIGATIONS OF THE STATE, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR THE AGENCY IS PLEDGED TO THE PAYMENT OF ANY BASE RENT PAYMENTS OR THE PRINCIPAL OR INTEREST EVIDENCED AND REPRESENTED BY THE CERTIFICATES. THE STATE WILL NOT BE OBLIGATED TO PAY THE SAME EXCEPT FROM AGENCY RENT PAYMENTS AND OTHER AMOUNTS AS PROVIDED IN THE MASTER FINANCING LEASE.

Non-Appropriation and Executive Order Reduction

PAYMENTS BY THE AGENCY OF AGENCY RENT PAYMENTS ARE SUBJECT TO APPROPRIATION BY THE STATE LEGISLATURE AND EXECUTIVE ORDER REDUCTION BY THE GOVERNOR. A DETERMINATION BY THE STATE LEGISLATURE NOT TO APPROPRIATE, OR ANY EXECUTIVE ORDER REDUCTION BY THE GOVERNOR, WOULD NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE TRUST AGREEMENT, THE MASTER FINANCING LEASE OR ANY STATE FINANCING LEASE ADDENDA.

Permitted Termination Events; Remedies

Under each State Agency Financing Lease Addendum, each of the following constitutes a "Permitted Termination Event":

(i) the State Legislature elects not to appropriate sufficient funds within any biennial budget for the purpose of paying the Agency Rent Payments due during the next occurring biennium; or

(ii) the Governor of the state issues an Executive Order mandating an emergency reduction in state funding;

provided, that the Agency delivers written notice thereof to the State Treasurer as required by its Financing Lease.

Upon the occurrence of a Permitted Termination Event, subject to the provisions of the Master Financing Lease and State Financing Lease Addenda, the state may terminate a State Financing Lease Addendum and the related obligation of the State Treasurer under the Master Financing Lease.

The occurrence of a Permitted Termination Event does not constitute an Agency Event of Default, a Master Financing Lease Event of Default or an Event of Default, and remedies of re-entry and re-letting during the term of the Site Lease are the sole remedies available to the State Treasurer and the Corporation upon such occurrence. See "Master Financing Lease—Permitted Termination Events" and "Financing Leases—Permitted Termination Events for State Agency Financing Lease Addenda" in Appendix B.

Agency Rent Payments

Pursuant to each Financing Lease, the Agency is required to make Agency Rent Payments to the state with respect to its Property. Agency Rent Payments are composed of principal and interest components and are payable, during the term of the Financing Lease, on each June 1 and December 1 immediately preceding the related Certificate Payment Date.

The Agency Rent Payments payable by the Agency pursuant to the Financing Leases in the aggregate are at least equal to the corresponding Base Rent Payments payable by the state pursuant to the Master Financing Lease.

The Agency has covenanted in its Financing Lease to take such action as may be necessary to include all the Agency Rent Payments due thereunder in its annual budget and to make the necessary annual appropriations for all such Agency Rent Payments.

Substitution of Real Property

Under the Master Financing Lease and the corresponding provisions of the Financing Leases, the State Treasurer may substitute and consent to the substitution, for a parcel of Property, of another parcel or parcels of real property by first filing with the Fiscal Agent, as Assignee of the Corporation:

(i) an Opinion of Counsel to the effect that such substitution (a) is permitted under the Master Financing Lease, and (b) in and of itself, will not adversely affect the exclusion from gross income for federal income tax purposes of the Interest Component of the Certificates;

(ii) an appraisal or other written evidence from an independent, disinterested real property appraiser acceptable to the State Treasurer and the Fiscal Agent to the effect that such substitute Property has an estimated fair rental value for the remaining term of the respective Financing Lease equal to or greater than the Agency Rent Payments due thereunder from time to time thereafter;

(iii) a certificate of the Agency to the effect that such substitute Property is free and clear of any mortgages, deeds of trust, liens, or other similar encumbrances, other than Permitted Encumbrances, and is essential to the Agency's ability to carry out its governmental functions and responsibilities; and

(iv) written evidence from each Rating Agency then rating the Certificates that such substitution, in and of itself, will not result in the suspension, reduction or withdrawal of any ratings on the Certificates by such Rating Agency.

Release of Real Property

Under the Master Financing Lease and corresponding provisions of the Financing Leases, the State Treasurer may release and consent to the release of a portion of the Property leased under any Site Lease, and subleased under and pursuant to the Master Financing Lease and the related Financing Lease, by first filing with the Fiscal Agent, as assignee of the Corporation:

(i) an Opinion of Counsel to the effect that such release (a) is permitted under the Master Financing Lease, and (b) in and of itself, will not adversely affect the exclusion from gross income for federal income tax purposes of the Interest Component of the Certificates;

(ii) an appraisal or other written evidence from an independent, disinterested real property appraiser acceptable to the State Treasurer and the Fiscal Agent to the effect that the remaining portion of the Property has an estimated fair rental value for the remaining term of the respective Financing Lease equal to or greater than the Agency Rent Payments due from time to time thereunder;

(iii) provision by the Agency of any necessary easements, reciprocal agreements or other rights as may be necessary to provide comparable pedestrian and vehicular access, and other uses and amenities (including but not limited to water, sewer, electrical, gas, telephone, and other utilities) as existed prior to such release; and

(iv) written evidence from each Rating Agency then rating the Certificates that such release, in and of itself, will not result in the suspension, reduction or withdrawal of any ratings on the Certificates by such Rating Agency.

Base Rent Payments and Agency Rent Payments Not Subject to Abatement

The Base Rent Payments payable by the state pursuant to the Master Financing Lease, and the Agency Rent Payments payable by the Agency pursuant to the Financing Leases, are *not* subject to abatement upon damage to or destruction of any of the Property, nor are such payments otherwise subject to diminution, reduction, postponement, counterclaim, defense, or set-off as a result of any dispute, claim or right of action by, against or among the state, the Corporation, the Fiscal Agent, the Agency, and/or any other Person, or for any other reason.

Acceleration

The Certificates may be subject to acceleration upon the occurrence of an Event of Default under the Master Financing Lease. However, the Certificates are not subject to acceleration upon the occurrence of an Agency Event of Default under any related Financing Lease. See Appendix B—Definitions and Summary of Certain Legal Documents.

Limitations on Exercise of Remedies

Upon the occurrence of an Event of Default under the Master Financing Lease or the Financing Leases, the Fiscal Agent, as assignee of the Corporation, may pursue any available legal or equitable remedy, which may include suing for rent as the same becomes due or re-entering the Property for the benefit of the owners of the Certificates, and terminating the Master Financing Lease or the Financing Leases, as appropriate, and accelerating the unpaid rent or suing for damages.

However, the remedies provided in the Master Financing Lease, the Financing Leases and/or the Trust Agreement may be unenforceable under certain circumstances due to the application of principles of equity to state or federal laws relating to bankruptcy, moratorium, reorganization, and creditors' rights generally and to limitations on remedies against the state and the Agency under the laws of the State of Washington. Moreover, due to the essential governmental nature of the Property or portions thereof, it is not certain whether a court would permit the exercise of the remedy of re-letting with respect thereto. In addition, the enforcement of remedies provided in the Master Financing Lease, the Financing Leases and the Trust Agreement could prove both expensive and time-consuming. In any event, although the Fiscal Agent has the right, upon the occurrence of an Event of Default or an Agency Event of Default, to re-enter and re-let the applicable Property, it is unknown whether any such re-entry, re-letting or other disposition would result in the collection of amounts sufficient to make the Agency Rent Payments. Moreover, the Fiscal Agent would not be obligated to re-let the Property in a manner so as to preserve the tax-exempt nature of interest represented by the Certificates.

Additional Certificates

The Agency may make additions or improvements to or alterations of any Project so long as such additional improvements are constructed and installed in accordance with applicable laws and regulations and do not diminish the value or usefulness of the Property.

The State Treasurer may enter into additional Master Financing Leases with the Corporation to finance all or any portion of the costs of such additions or improvements so long as such leases do not reduce the obligation of the state to make Base Rent Payments under the Master Financing Lease and will not, in the opinion of Certificate Counsel, adversely affect the tax-exempt status of the Interest Component of Base Rent Payments evidenced and represented by the Certificates. If the State Treasurer enters into any additional Master Financing Lease for this purpose, the Corporation may be granted an interest in the Property under an additional Site Lease of all or any portion of the Property, which leasehold interest may be assigned to the Fiscal Agent for the benefit of owners of certificates of participation in such additional Master Financing Lease. The owners of certificates of participation in any additional Master Financing Lease will be secured proportionally, without preference, with the Owners with respect to any payments received by the Fiscal Agent in regards to the Property following the occurrence of an Event of Default or Permitted Termination Event.

Payment History

The principal and interest represented by certificates of participation in lease or other payment obligations that are payable by the state always have been paid when due. The state has never failed to appropriate funds to meet its lease, installment sale or other payment obligations with respect to outstanding certificates of participation therein.

WASHINGTON FINANCE OFFICERS ASSOCIATION

The Washington Finance Officers Association is a Washington nonprofit corporation the members of which consist of state and local government finance officials in the state. The Corporation was formed primarily for educational purposes, including promoting the improvement of government finance in the state. The Corporation acts as the nominal purchaser, seller, lessee, and sublessor in connection with various certificate of participation financings undertaken by the State Treasurer for the benefit of state and local government agencies. In connection with the Certificates, the Corporation is acting as the lessee under each Site Lease, and as lessor under the Master Financing Lease. As of the closing, the Corporation will irrevocably assign and transfer all of its right, title and interest in and to the Site Leases, the Master Financing Lease and the Financing Leases to the Fiscal Agent, and will thereafter have no rights or interest with respect to the Certificates, the Projects, the Master Financing Lease, the Financing Leases, or the Site Leases. The Corporation has not participated in the preparation of this Preliminary Official Statement, and is not responsible for any of the statements or information herein.

INITIATIVE AND REFERENDUM

Under the State Constitution, the voters of the state have the ability to initiate legislation and to modify, approve and reject existing statutes through the powers of initiative and referendum. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least eight percent (initiatives) and four percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the State Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the State Legislature. After two years, the law is subject to amendment or repeal by the State Legislature in the same manner as other laws. The State Constitution may not be amended by initiative or referendum.

On July 15, 2009, the Washington Secretary of State certified that Initiative 1033 ("I-1033") contained sufficient valid signatures to be placed on the ballot at the November 2009 general election for approval or rejection by the voters. In general, I-1033 would limit the amount of state, county and city general fund revenue (revenue from taxes, fees and other governmental charges but not including new voter-approved revenue) received in any year. Beginning with 2010, receipts in excess of the amount of general fund revenue received in the prior year, beginning with 2009, adjusted for inflation and population growth, would be used to reduce the amount of the applicable state, county and city property tax levy in the subsequent year, beginning with 2011. It cannot be predicted whether I-1033 will be approved by the voters.

ECONOMIC AND REVENUE FORECASTS

Revenue, budgetary and economic information concerning the state government and Washington State as a whole is contained in Appendix A. Pursuant to state law, the state Economic and Revenue Forecast Council provides state economic and tax revenue results and forecasts on a quarterly basis. The most recent release of data occurred on June 18, 2009. A press release summarizing the results of the June 18, 2009, economic results and forecasts is available on the state's website (*www.erfc.wa.gov)*. The next forecast will be released on or about September 17, 2009. Copies of the report and subsequent reports are available from the Economic and Revenue Forecast Council, P.O. Box 40912, Olympia, Washington 98504-0912. See Appendix A—General and Economic Information—Revenues, Expenditures and Fiscal Controls—State Economic and Revenue Forecasting Process.

CERTAIN STATEMENTS INCLUDED OR INCORPORATED BY REFERENCE IN THIS OFFICIAL STATEMENT, INCLUDING BUT NOT LIMITED TO APPENDIX A, CONSTITUTE "FORWARD LOOKING STATEMENTS" WITHIN THE MEANING OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, SECTION 21E OF THE UNITED STATES SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AND SECTION 27A OF THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE TERMINOLOGY USED SUCH AS "PLAN," "EXPECT," "FORECAST," "ESTIMATE," "BUDGET," OR OTHER SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD LOOKING STATEMENTS. THE STATE DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

LITIGATION

There is no litigation now pending against the state to the knowledge of the Deputy State Treasurer—Debt Management based on an inquiry with the Attorney General's Office in any way restraining or enjoining the sale, issuance or delivery of the Certificates, or in any manner effecting the validity of the Certificates, the security of the Certificates or the proceedings, or authority pursuant to which they are to be sold and issued or the pledge or application of any moneys provided for the payment of the Certificates.

The state and its agencies are parties to numerous routine legal proceedings that normally occur as a consequence of regular government operations. At any given point, there may be numerous lawsuits involving state agencies which could, depending on the outcome of the litigation or the terms of a settlement agreement, impact expenditures to one degree or another. There are risk management funds reserved by the state for these claims and insurance is available to pay all or a portion of most damages for most types of claims. There has been a trend in recent years of higher jury verdicts on certain types of damage claims. The collective impact of these claims, however, is not likely to have a material impact on state revenues or expenditures.

In addition to the regular sort of damages claims, there are currently a number of lawsuits challenging the management and administration of state programs. Some lawsuits seek an expansion of program social services for certain constituents. The potential impact of this litigation is the most difficult to predict. Conceivably, a court could order the restructuring or expansion of certain entitlement programs that would result in a major restructuring of state budgeting and expenditures. No such ruling has yet to occur nor is such a court ruling currently anticipated. Most of these cases involve programs administered by the Department of Social and Health Services. These cases are not called out specifically in this disclosure because it is not possible to quantify with exactitude what the fiscal impact of such claims could ultimately be, and it is not possible to know ahead of time what state or federal legislative responses could be taken to mitigate such impacts.

Specific matters that may raise potentially significant, but specifically incalculable fiscal impacts include the following cases:

In *McCleary v. State of Washington,* a matter currently before the King County Superior Court, petitioners are asking the Court to find that the State of Washington is not meeting its constitutional mandate pertaining to the provision of public education because all children are not achieving successful education outcomes. The parties are currently engaged in intensive document production and depositions. The trial date has been continued until August 31, 2009.

In *Jane Doe 1 and Jane Doe 2 v. Clarke,* female inmate class action plaintiffs allege that the State Department of Corrections failed to properly investigate and prevent alleged sexual assaults and alleged sexual misconduct by state prison guards. The parties engaged in settlement negotiations and reached an agreement on the damages portion of the case for one million dollars; however, settlement is contingent upon the parties agreeing on the resolution of the injunctive portion of the case. The Governor has authorized further settlement discussions so long as there is no requirement to seek Legislative funding. The parties have entered into a stay, rescheduling the trial until March 2010. The stay requires the Department to implement changes at the women's facilities while the stay is in place and allows the Department to bargain with the Unions in order to implement more change in the interim. The parties have until January 31, 2010, to negotiate a final settlement agreement, or the case will move forward to trial.

Chao v. Washington Department of Corrections, is a U.S. Department of Labor lawsuit filed in U.S. District Court seeking back overtime wages on behalf of approximately 870 community corrections employees statewide. The Department of Corrections has estimated the maximum potential liability for back wages if all issues were construed in plaintiff's favor to be as much as $15 million. It is unlikely that such an outcome could occur, given the complexity of the issues in dispute. Trial has been scheduled in U.S. District Court for September 14, 2009.

In a matter being pursued by various Native American Tribes against the state in federal court, *United States v. State of Washington,* the plaintiffs allege that state-owned culverts associated with hundreds of state roads and other public property have acted as blocks to migrating fish passages, allegedly harming the tribes' ability to fully exploit their rights to benefit from the unhindered propagation of certain fish species. The parties have been engaged in extensive settlement negotiations and conferences over the past few years which have been unsuccessful. The case is in active litigation status once again and the parties are preparing for trial which is currently set of October 13, 2009.

In the matter of *Skagit County, Skagit County Public Hospital District No. 304, aka United General Hospital, and Mt. Baker School Dist. No. 507 v. State Department of Natural Resources*, plaintiffs challenge the constitutionality of legislation setting up the Lake Whatcom Landscape plan and claim the Department's approval of the proposed plan violates certain state constitutional trust provisions related to benefits of certain state lands held in trust for specific beneficiaries. While the constitutional, trust, and land management issues in this litigation are extremely complex, plaintiffs essentially seek significant compensation for the trust monies spent on non-trust purposes, reduction in the value of the trust assets, and compensation for all lost revenue to the trust beneficiaries. A settlement agreement was reached and funding was approved by the Legislature during the 2009 legislative session to fund the State's portion of the settlement which will be disbursed by June 30, 2009. The County and City now need to meet their settlement agreement obligations. Once all payments are made the case will be dismissed. t

The matter of *Probst v. DRS*, involves a class action lawsuit challenging the methodology through which the State Department of Retirement Systems credits interest on the individual accounts of certain categories of retirement systems. These policies affect both those system members who withdraw funds from individual retirement accounts under the state's Public Employees' Retirement Systems ("PERS") Plans 1 and 2, and any person transferring their accounts to PERS Plan 3. Because of the significant amounts involved in these transactions, a comprehensive ruling against the state in this matter could have a potentially significant fiscal impact. A settlement agreement was signed in 2007 for 5.5 million dollars. An order was entered in September 2008 approving the settlement. An individual member of the class appealed to the court of appeals, which upheld the order on June 30, 2009. In 2009, a supplemental complaint was filed on behalf of TRS Plan 3 members under the same legal theories described above. A motion for summary judgment was scheduled to be heard on June 12, 2009, and was subsequently cancelled by the court. Summary judgment motions are expected to be heard some time in 2009.

In *WEA, et al. v. DRS,* a King County Court is being asked to overturn the State Legislature's repeal of "gain sharing" benefits for various retirement system plans based on alleged constitutional impairment of contracts and equitable and promissory estoppel theories. Four separate law suits were filed which were consolidated under one case. The parties are currently engaged in extensive discovery. In June 2009 WPEA withdrew their case by taking a voluntary dismissal leaving only three cases in the consolidated case. A trial date has been set for October 27, 2009. If plaintiffs prevail on all issues before the court, there could be a significant fiscal impact potentially requiring the State Legislature to pursue additional funding of the plans or other remedies.

In a Department of Social and Health Services matter, *Tamas v. DSHS*, three children alleged that the Department failed to protect them and they were subjected to abuse by a foster parent and/or foster-adopt parent. The case was removed to federal court. DSHS moved to dismiss the federal civil rights claims. The motion was denied. DSHS filed an interlocutory appeal which is currently pending before the Ninth Circuit. All state law claims are stayed pending the outcome of the Ninth Circuit ruling.

In the matter of the *United States v. WSDOT*, EPA is seeking $6.8 million in administrative costs incurred during the Thea Foss Waterway cleanup. WSDOT has counterclaimed against the United States, alleging that the US Army Corps of Engineers contributed to the pollution of the waterway by dredging contaminated sediment during 1900 – 1950 and disposing of it on the banks of the waterway where it could cause further waterway contamination. WSDOT is seeking to have some or all of the EPA administrative costs apportioned to USACE, as well as recovery of some or all of the judgment entered in *PSE and PacifiCorp v. WSDOT.* Trial is set in US District Court for October 2010.

The matter of *Moore v. State*, is a class action lawsuit alleging that the state has wrongfully denied health benefits to current and former non-permanent employees by inconsistently applying eligibility standards, misclassifying employees to deny them benefits in alleged violation of the Washington Constitution. A comprehensive ruling for plaintiffs on all issues in dispute could have a potentially significant impact. The parties were involved in settlement negotiations but recently stalemated. The case is set for trial in February 2010.

The matter of *Federal Way School District No. 210, et.al. v. State of Washington*, involves a comprehensive challenge to the state's public school funding formula. Washington law directs a state-wide salary allocation schedule to apportion funds for each of the three classes of state employees (teacher, classified staff, and administrative staff) specified in the ratios for biennial appropriations. Currently school districts receive disparate amounts of state funding per employee based on multiple variables. Plaintiffs challenge, among other things this variable allocation scheme. The trial court ruled in plaintiff's favor. This case is currently before the Washington Supreme Court. Oral argument was held on June 11, 2009.

Finally, the matter of *Tourism Alliance, et. al v. State of Washington et. al* involves constitutional and impairment of contract challenges to the transfer of fifty-seven million dollars from two Washington State Convention and Trade Center accounts to the general fund. In the 2008 supplemental budget, the legislature directed the Washington State Treasurer to make this transfer on June 30, 2009. This case was filed on June 1, 2009, and the parties are planning to file cross motions for summary judgment. Oral argument on the summary judgment motions is scheduled for September 25, 2009. Trial is currently scheduled for November 10, 2010.

Again, the lawsuits addressed above are not likely to have any material impact on state revenues or expenditures; there are risk management funds reserved by the state for these claims and insurance is available to pay all or a portion of most damages for most types of claims. These particular matters are set forth in the interest of full disclosure.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, issuance and sale by the state of the Certificates are subject to the approval of legality by Foster Pepper PLLC ("Certificate Counsel"), and certain other conditions. The proposed form of the legal opinion of Certificate Counsel is set forth in Appendix C hereto. Certain legal matters will be passed upon for the Agencies by their respective counsel.

Certificate Counsel will deliver a legal opinion to the state to the effect that the statements in the section of this Official Statement entitled "The Certificates" and "Sources of Payment and Security for the Certificates" and in Appendix B—Definitions and Summary of Certain Legal Documents hereto are accurate in all material aspects, but only insofar as such statements summarize or describe the terms of the Certificates, the Trust Agreement, the Master Financing Lease, the Financing Leases, the Master Assignment, and the Site Leases. Certificate Counsel does not otherwise assume any responsibility or liability for the accuracy or completeness of this Official Statement. The payment of compensation to Certificate Counsel is contingent upon the successful delivery of the Certificates to, and full payment for the Certificates by, the successful bidders.

The opinions of Certificate Council are given based on factual representations made to Certificate Counsel, and under existing law, as of the date of initial delivery of the Certificates, and Certificate Counsel assumes no obligation to revise or supplement its opinions to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinions of Certificate Counsel are an expression of its professional judgment on the matters expressly addressed in its opinions and do not constitute a guarantee of result.

TAX MATTERS

Tax Exemption of Certificates

Exclusion from Gross Income. In the opinion of Foster Pepper PLLC, Seattle, Washington, Certificate Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Certificates, interest evidenced and represented by the Certificates will be excluded from gross income for federal income tax purposes.

Continuing Requirements. The state is required to comply with certain requirements of the Code after the date of execution and delivery of the Certificates in order to maintain the exclusion of the interest evidenced and represented by the Certificates from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Certificate proceeds and the facilities financed with Certificate proceeds, limitations on investing gross proceeds of the Certificates in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Certificates. The state has covenanted in the Master Contract to comply with those requirements, but if the state fails to comply with those requirements, interest evidenced and represented by the Certificates could become taxable retroactive to the date of execution and delivery of the Certificates. Certificate Counsel has not undertaken and does not undertake to monitor the state's compliance with such requirements.

Alternative Minimum Tax. Under existing federal law, interest evidenced and represented by the Certificates received by individuals and corporations is not treated as an item of tax preference for purposes of the federal alternative minimum tax, and interest evidenced and represented by the Certificates received by corporations is not taken into account in determining adjusted current earnings of corporations for purposes of the federal alternative minimum tax.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest evidenced and represented by the Certificates, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25 percent of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest evidenced and represented by the Certificates may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Certificates are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Possible Consequences of Tax Compliance Audit. The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Certificates, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Certificate Counsel cannot predict whether the IRS would commence an audit of the Certificates. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Certificates could adversely affect the market value and liquidity of the Certificates until the audit is concluded, regardless of its ultimate outcome.

Certain Other Federal Tax Consequences

De Minimis Safe Harbor Exception for Tax-Exempt Interest Expense of Financial Institutions. The state has **not** designated the Certificates as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. However, pursuant to Section 265(b)(7) of the Code, the Certificates are not taken into account in determining the portion of the total interest expense of a bank or other financial institution that is allocable to tax-exempt interest (and with respect to which 100% of the interest expense otherwise would be disallowed) to the extent that the average adjusted bases of tax-exempt obligations held by a bank or other financial institution does not exceed 2% of the average adjusted bases of all assets of the bank or other financial institution. To the extent that the Certificates are not taken into account under this *de minimis* safe harbor exception, only 20% of the interest expense of a bank or other financial institution allocable to the Certificates is disallowed as a deduction for federal tax purposes.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest evidenced and represented by the Certificates received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15 percent of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest evidenced and represented by the Certificates into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest evidenced and represented by the Certificates may have other federal tax consequences as to which prospective purchasers of the Certificates may wish to consult their own tax advisors.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with paragraph (b)(5) of Securities and Exchange Commission (the "SEC") Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the "Rule"), the State Treasurer, on

behalf of the Committee, has agreed in the Master Financing Lease to enter into a written undertaking in the form of a Disclosure Agreement for the benefit of the holders of the Certificates (the "Undertaking").

Annual Disclosure Report. The state covenants and agrees that not later than seven months after the end of each fiscal year (the "Submission Date"), beginning January 31, 2010, for the fiscal year ended June 30, 2009, the state will provide or cause to be provided to the Municipal Securities Rulemaking Board (the "MSRB"), accompanied by identifying information as prescribed by the MSRB, an annual report (the "Annual Disclosure Report"), which will consist of the following:

(i) audited financial statements of the state prepared (except as noted in the financial statements) in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board, as such principles may be changed from time to time, except that if the audited financial statements are not available by the Submission Date, the Annual Disclosure Report will contain unaudited financial statements in a format similar to the audited financial statements most recently prepared for the state, and the state's audited financial statements will be filed in the same manner as the Annual Disclosure Report when and if they become available;

(ii) financial and operating data for the state as set forth in Appendix A to this Preliminary Official Statement;

(iii) a summary of the state debt structure by revenue pledge; and

(iv) a narrative explanation of any reasons for any amendments to this Undertaking made during the previous fiscal year and the effect of such amendments on the Annual Disclosure Report being provided.

Any or all of the items listed above may be included by specific reference to other documents available to the public on the Internet website of the MSRB or filed with the SEC. The state will identify clearly each document so included by reference.

The Annual Disclosure Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided herein; provided, that any audited financial statements may be submitted separately from the balance of the Annual Disclosure Report and later than the Submission Date if such statements are not available by the Submission Date.

If the state's fiscal year changes, the state may adjust the Submission Date by giving notice of such change in the same manner as notice is given of the occurrence of a Material Event.

The state agrees to provide or cause to be provided to the MSRB, in a timely manner, notice of its failure to provide the Annual Disclosure Report on or prior to the Submission Date.

Material Events. The state agrees to provide or cause to be provided to the MSRB, in a timely manner, notice of the occurrence of any of the following events with respect to the Certificates, if material (the "Material Events"):

(i) principal and interest payment delinquencies;

(ii) nonpayment-related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the Certificates;

(vii) modifications to rights of holders of the Certificates;

(viii) optional, contingent or unscheduled Certificate calls (other than scheduled mandatory sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856);

(ix) defeasances;

(x) release, substitution or sale of property securing the repayment of the Certificates; and

(xi) rating changes.

Termination or Modification of Undertaking. The state's obligations under the Undertaking will terminate upon the legal defeasance, prior prepayment or payment in full of all of the Certificates. The Undertaking, or any provision hereof, will be null and void if the state:

(i) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require the Undertaking, or any such provision, have been repealed retroactively or otherwise do not apply to the Certificates; and

(ii) notifies the MSRB, n a timely manner, of such opinion and the cancellation of the Undertaking.

The state may amend the Undertaking without the consent of any holder of any Certificate or any other person or entity under the circumstances and in the manner permitted by the Rule. The State Treasurer will give notice to the MSRB of the substance of any such amendment, including a brief statement of the reasons therefor.

If the amendment changes the type of Annual Disclosure Report to be provided, the Annual Disclosure Report containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided (or in the case of a change of accounting principles, the presentation of such information). In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements:

(i) notice of such change will be given in the same manner as for a Material Event, and

(ii) the Annual Disclosure Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Remedies; Beneficiaries. The right to enforce the provisions of the Undertaking will be limited to a right to obtain specific enforcement of the state's obligations thereunder, and any failure by the state to comply with the provisions of the Undertaking will not be a default with respect to the Certificates. The Undertaking inures to the benefit of the State Treasurer and any holder of the Certificates, and does not inure to the benefit of or create any rights in any other person.

Additional Information. Nothing in the Undertaking will be deemed to prevent the state from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a Material Event, in addition to that which is required by the Undertaking. If the state chooses to include any information in any Annual Disclosure Report or notice of the occurrence of a Material Event in addition to that specifically required by the Undertaking, the state will have no obligation to update such information or to include it in any future Annual Disclosure Report or notice of occurrence of a Material Event.

Prior Compliance. The state has complied in all material respects with all prior written undertakings under the Rule.

OTHER CERTIFICATE INFORMATION

Rating

The Certificates have been rated "Aa2" by Moody's Investors Service ("Moody's"), as noted on the cover of this Official Statement. The state has furnished certain information and materials to Moody's regarding the Certificates and the state. Such rating reflects only the view of such rating agency and is not be a recommendation to buy, sell or hold the Certificates. Generally, rating agencies base their ratings on the information and materials furnished to them and on their own investigations, studies and assumptions. An explanation of the significance of such rating may be obtained from Moody's Investors Service, located at 7 World Trade Center, 250 Greenwich Street, New York, New York 10007.

There is no assurance that such rating will be maintained for any given period of time or that it may not be raised, lowered, suspended, or withdrawn entirely by the rating agency if, in its judgment, circumstances warrant. Any such downward change in or suspension or withdrawal of such rating may have an adverse effect on the market price of the Certificates. The state undertakes no responsibility to oppose any such change or withdrawal.

Underwriter of the Certificates

The Certificates are being purchased by _____ (the "Underwriter") at a price of $_____. The Underwriter has represented that the Certificates will be reoffered at the prices or yields set forth on page i of this Official Statement. The Underwriter may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts) and others at prices lower than the initial offering prices set forth on the cover hereof, and such initial offering prices may be changed from time to time by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

Financial Advisor

DashenMusselman, Inc. has served as financial advisor to the state relative to the preparation of the Certificates for sale, timing of the sale and other factors relating to the Certificates. The financial advisor has not audited, authenticated or otherwise verified the information set forth in this Official Statement or other information provided relative to the Certificates. DashenMusselman, Inc. makes no guaranty, warranty or other representation on any matter related to the information contained in the Official Statement. The financial advisor is an independent financial advisory firm and is not engaged in the business of underwriting, marketing, trading, or distributing municipal securities. The payment of compensation to the financial advisor is contingent upon the successful delivery of the Certificates to, and full payment for the Certificates by, the underwriter.

Official Statement

Upon delivery of the Certificates to the successful bidder, the State Finance Committee by its Chairman, the State Treasurer, or his authorized representative, will approve or have approved the Official Statement, and also will deliver a certificate to the effect that the Preliminary Official Statement did not as of its date, and the Official Statement does not as of the date of such delivery, contain any untrue statement of a material fact required to be stated therein or necessary to make the statements therein, in the light of circumstances under which they were made, not misleading, and no event affecting the Certificates has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any material respect (except that in no event will any representation be made with respect to information herein regarding DTC and its book-entry only system, or regarding any municipal bond insurer or any municipal bond insurance policy issued in respect of the Certificates).

Excerpts from the state's 2008 Comprehensive Annual Financial Report ("CAFR") are attached as Appendix D. Copies of the state's entire 2008 CAFR are available on the Office of Financial Management's website at *http://www.ofm.wa.gov/cafr/default.asp* or upon request from the Office of the State Treasurer.

THE STATE OF WASHINGTON

_____

Deputy State Treasurer—Debt Management

APPENDIX A

GENERAL AND ECONOMIC INFORMATION

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INTRODUCTION

State Overview

The State of Washington (the "state") is located in the northwest corner of the contiguous 48 states and is the 20th largest state by land area and the 15th largest state by population. Based on the U.S. Census Bureau's 2000 Census, the state's resident population is 5,894,121, an increase of 21.1 percent over 1990. Washington Territory was created in 1853 by carving out of the Oregon Territory all of what is now Washington and part of Idaho and Montana. Washington was admitted to the union as the 42nd state in 1889.

The state's capital is Olympia, and its largest city is Seattle. Seattle is situated on Puget Sound and is part of the international trade, manufacturing, high technology, and business service corridor that extends from Everett to Tacoma. The Pacific Coast/Puget Sound region of the state includes approximately 75 percent of the population, the bulk of industrial activity and most of the state's forests, which are important to the timber and paper industries. The balance of the state includes agricultural areas primarily devoted to grain, apple and other fruit orchards and dairy operations.

In recent years the state's economy has diversified, with employment in the trade and service sectors representing an increasing percentage of total employment relative to the manufacturing sector.

State Government

Under the State Constitution, the legislative authority of the state is vested in the Legislature, consisting of a 49-member Senate and a 98-member House of Representatives. General elections are held on the first Tuesday in November in each even-numbered year. Members of the Senate serve four-year terms, with one seat in each legislative district open in each general election. Members of the House of Representatives serve two-year terms, with every seat open in each general election. The Legislature convenes annual regular sessions of 105 days (January to April) in odd-numbered years and 60 days (January to March) in even-numbered years. The Governor may call an unlimited number of special sessions, each of which is limited to no more than 30 days.

Nine state executive officers are elected at-large to four-year terms at general elections held in the same years as elections for the President of the United States: the Governor, Lieutenant Governor, Secretary of State, Treasurer, Auditor, Attorney General, Superintendent of Public Instruction, Commissioner of Public Lands and Insurance Commissioner.

The nine justices of the state Supreme Court are elected at-large to six-year terms, with three seats open in each general election.

State Finance Committee

The State Finance Committee (the "Committee") is composed of the Governor, Lieutenant Governor and State Treasurer, the latter being designated by law as Chairman. The Office of the State Treasurer provides administrative support to the Committee. By statutory provision, the Committee is delegated authority to supervise and control the issuance of all state bonds. A Deputy State Treasurer acts as recording officer for the Committee and is responsible for the administration of official duties in accordance with prescribed policies of the Committee.

REVENUES AND EXPENDITURES

The following tables display state general fund revenues and expenditures for the past four biennia.

GENERAL FUND REVENUES
Modified Accrual Basis
(millions)

	1999-2001 Biennium	2001-2003 Biennium	2003-2005 Biennium	2005-2007 Biennium
Beginning General Fund-State Balance	$ 462	$ 599	$ 405	$ 870
General Fund-State Revenue				
Retail Sales and Use Taxes	$ 11,683	$ 11,740	$ 12,742	$ 15,203
Real Estate Excise Tax	802	873	1,327	2,002
Business and Occupation Tax	3,773	3,791	4,202	5,048
Property Tax	2,693	2,645	2,783	2,826
Other Taxes	1,729	1,775	1,871	2,081
Subtotal Tax Revenue	$ 20,680	$ 20,824	$ 22,925	$ 27,160
Other Nontax Revenue	$ 472	$ 375	$ 461	$ 641
Other Financing	111	(57)	2	(29)
Transfers from Other Funds/Other Adjustments	120	1,113	658	192
Federal Fiscal Relief (Grant Portion)	0	100	90	0
Spillover Transfer to Emergency Reserve Account	(198)	0	0	0
Transfer to Budget Stabilization Account	0	0	0	(289)
Total General Fund-State Revenue*	$ 21,645	$ 22,954	$ 24,541	$ 28,545
Federal Revenue	$ 8,211	$ 9,749	$ 10,665	$ 11,565
Private/Local Revenue	496	501	600	368
Total	$ 30,352	$ 33,204	$ 35,806	$ 40,478

* Includes balance from previous biennium.

Note: Totals may not add due to rounding.

Source: Office of Financial Management

GENERAL FUND EXPENDITURES
Modified Accrual Basis
(millions)

	1999-2001 Biennium	2001-2003 Biennium	2003-2005 Biennium	2005-2007 Biennium
Education				
Public Schools	$ 9,459	$ 9,872	$ 10,179	$ 11,047
Higher Education	2,549	2,733	2,696	2,950
Other Education	55	52	40	78
Total Education	$ 12,063	$ 12,657	$ 12,915	$ 14,075
Human Services				
Department of Social and Health Services	$ 5,300	$ 6,226	$ 6,696	$ 7,991
Department of Corrections	914	1,111	1,261	1,449
Other Human Services	187	163	171	188
Total Human Services	$ 6,401	$ 7,500	$ 8,128	$ 9,628
Natural Resources and Recreation	$ 305	$ 336	$ 347	$ 423
Government Operations	403	476	426	471
Other Expenditures*				
Debt Service	$ 1,119	$ 1,210	$ 1,236	$ 1,374
Other Expenditures	754	370	620	1,794
Total Other Expenditures	$ 1,873	$ 1,580	$ 1,856	$ 3,168
Total General Fund-State Expenditures	$ 21,045	$ 22,549	$ 23,672	$ 27,765
Federal	$ 8,211	$ 9,749	$ 10,665	$ 11,565
Private/Local	496	501	600	368
Total	$ 29,752	$ 32,799	$ 34,937	$ 39,698
Ending General Fund-State Balance	$ 599	$ 405	$ 870	$ 781
Emergency Reserve Account Projected Balance	460	57	0	293
Budget Stabilization Account	0	0	0	0
Total Reserves	$ 1,059	$ 462	$ 870	$ 1,074

* Includes legislative, judicial and transportation agencies, as well as debt service and contributions to LEOFF and Judges and Judicial Retirement System. See "Retirement Systems."

Note: Totals may not add due to rounding.

Source: Office of Financial Management

Revenues

The state's tax revenues consist primarily of excise and *ad valorem* taxes. The State Constitution, as interpreted by the State Supreme Court, prohibits the imposition of a graduated tax on net income.

Excise Taxes. The retail sales tax and its companion use tax represent the largest source of state tax revenue. The retail sales and use tax is applied to a broad base of tangible personal property and selected services purchased by consumers, including construction (labor and materials), some machinery and supplies used by businesses, services and repair of real and personal property, and other transactions not taxed in many other states. Among the various items not subject to this tax are most personal services, motor vehicle fuel, food for off-premises consumption, trade-ins, manufacturing machinery, and purchases for resale. The current state retail sales and use tax rate is 6.5 percent and was last increased in 1983. Local taxing jurisdictions are also authorized to impose retail sales and use taxes, and the total rate imposed in the state ranges from 7.0 percent to 9.5 percent.

The business and occupation tax is applied to gross receipts of all business activities conducted within the state. Business and occupation tax rates currently include a principal rate of 0.484 percent of gross income for most manufacturing and wholesaling businesses, which has been adjusted four times since the highest rate of 0.581 percent was imposed in 1983. Retail firms currently pay 0.471 percent, and services pay 1.5 percent. Certain local taxing jurisdictions are also authorized to impose business and occupation taxes.

The state imposes a real estate excise tax of 1.28 percent on sales of real property. Each county treasurer is required to retain 1.3 percent of the proceeds of this tax to defray costs of collection. Each county treasurer is required to pay over to the State Treasurer the balance of the proceeds of this tax on a monthly basis for deposit in the general fund. An amount equal to 6.1 percent of the proceeds of this tax received by the State Treasurer is then required to be deposited in the public works assistance account, and an amount equal to 1.6 percent of the proceeds of this tax received by the State Treasurer is required to be deposited in the city-county assistance account. Certain local taxing jurisdictions are also authorized to impose real estate excise taxes.

Property Tax. The state's property tax is levied against the true and fair value of property as determined by the Department of Revenue. The property tax for local taxing districts is levied against the assessed value as determined by county assessors. For property taxes payable in 2007, assessed value averaged 86 percent of fair market value. By constitutional provision, the aggregate of all regular (nonvoted) tax levies upon real and personal property by the state and local taxing districts may not exceed one percent of the true and fair value of such property. Excess levies are subject to voter approval.

By statute, the state property tax levy is limited to the lesser of 101 percent or 100 percent plus the percentage change in inflation of the dollar amount of property taxes levied in the highest of the three most recent years, plus an additional amount calculated by multiplying the increase in assessed value resulting from new construction and improvements by the property tax rate for the preceding year. The state levy rate for taxes due in 2007 was $1.81 per $1,000 of true and fair property value.

By statute, all of the income from the state's property tax levy is dedicated to the support of public schools.

State Nontax Revenue. The largest components of state nontax revenue include such items as revenues derived from the sale of supplies, materials and services, fines and forfeitures, income from property, transfer of lottery proceeds, and income from liquor sales.

Federal Grants. Legislative appropriations for federal programs are designated specifically from federal revenue sources. To the extent that federal funds are not received, the appropriated expenditures may not be incurred.

Tax Collection. Four state agencies are responsible for administering the major state taxes: the Department of Revenue, the Department of Licensing, the Liquor Control Board, and the Office of the Insurance Commissioner. The State Treasurer receives the revenues from the collecting agencies and deposits and distributes the funds as required by law. Nearly all state agencies collect some form of revenue. For state budget purposes, however, the definition of tax generally excludes such revenue sources as license fees, liquor profits, lottery receipts, charges for service such as tuition, federal grants and revenue sharing, and proceeds of bond issues.

Expenditures

Education. The state's expenditures for public schools are mandated by the state constitutional requirement for support of the common schools. The State Supreme Court has interpreted the State Constitution to require the state to ensure that each public school district receives the funds needed to provide a basic education.

The Legislature has enacted legislation to improve the stability and predictability of school funding, including legislation that (i) prescribes course offerings, teacher contract hours and core student/staff ratios; (ii) limits local property tax levies and provides for the gradual equalization of levy capacity per student throughout the state; (iii) limits local compensation increases to those authorized by the state; and (iv) provides for state assistance to equalize tax rates for local levies, establishes a state-wide salary allocation schedule with mandated minimum salaries for teachers and requires school districts to maintain minimum teacher/student ratios.

Social and Health Services. The State Department of Social and Health Services ("DSHS") provides services that include protective services for children, the aged and mentally disabled people, as well as for people in institutions and other residential care facilities.

The largest expenditure within DSHS is the Medical Assistance program. Through this program, necessary medical care is made available to recipients of cash assistance programs, beneficiaries of Supplemental Security Income and other eligible people with low incomes who do not qualify for income assistance. In addition to support from the General Fund-State, funding is received from the federal government for those people and services covered under Medicaid. The Medical Assistance budget has grown significantly in recent years. Growth in the number of eligible recipient groups such as pregnant women and children, growth in other eligible populations such as disabled people, rising health care costs, and requirements to provide higher payments to hospitals have all resulted in increased expenditures.

The Economic Services program provides support to families with limited incomes and disabled people who cannot work. The federal government provides funds for the Temporary Assistance for Needy Families program and in several other smaller programs.

DSHS is also responsible for supporting community mental health programs and operating state psychiatric hospitals, institutions for the developmentally disabled, nursing homes, institutions for juvenile rehabilitation, child welfare service programs, child support enforcement activities, drug and substance abuse treatment programs, and vocational rehabilitation services.

Corrections. The Department of Corrections operates 15 correctional institutions and 15 work-training release facilities. The rapid growth in inmate population is in part attributable to the enactment of various crime-reduction legislation, including Initiative 593 ("Three Strikes and You're Out") approved by voters in 1993. Despite the addition of nearly 4,000 new prison beds in recent years, the Department of Corrections continues to experience overcrowding. During the 2007-09 Biennium, the Department of Corrections completed more than 2,500 new prison beds.

Revenue and Expenditure Limitations

Initiative 601, approved by the voters in 1993, requires that any action by the Legislature to raise state revenues be approved by a two-thirds vote of both houses of the Legislature. The Legislature has periodically enacted exceptions to permit revenues to be raised with a simple majority vote. See "Initiative and Referendum" in the Official Statement.

Initiative 960, approved by the voters in 2007, requires tax increases be approved by a two-thirds majority of each house of the Legislature and be submitted to the ballot for an advisory vote of the people; the Legislature may also approve tax increases with a simple majority vote if the increase is placed before the people in a referendum. Initiative 960 also provides for the notification of interested parties when the Legislature proposes or otherwise takes action upon measures that increase taxes or fees and requires the Office of Financial Management ("OFM"), the Governor's budget agency, to provide ten-year estimates of the increased revenues and costs of such measures. Finally, Initiative 960 prohibits any fee from being imposed or increased without prior legislative approval.

Under Initiative 601, the state generally is prohibited from increasing expenditures from the General Fund-State and certain related accounts during any fiscal year by more than the fiscal growth factor. The fiscal growth factor is calculated annually and is defined as the average growth in state personal income for the prior ten fiscal years. Voter approval is required to exceed the spending limit. The fiscal growth factor is 5.53 percent for Fiscal Year 2008, 5.57 percent for Fiscal Year 2009, 5.20 percent for Fiscal Year 2010, and 4.61 percent for Fiscal Year 2011.

Initiative 601 established two reserve funds (the Emergency Reserve Fund and the Education Construction Fund) for depositing revenues in excess of the spending limit. Initiative 728, approved by voters in 2000, added a third fund, the Student Achievement Fund, for depositing revenues in excess of the spending limit. Initiative 601 in its original form required that appropriations from the Emergency Reserve Fund be approved by a two-thirds vote of both houses of the Legislature. The Legislature changed this requirement to a simple majority in 2002.

In 2007 the Legislature enacted legislation to abolish the Emergency Reserve Fund and to create a new Budget Stabilization Account by amending the State Constitution, which required voter approval. The amendment was approved by voters. The Budget Stabilization Account receives one percent of the general state revenues each year. Money may be appropriated from the Budget Stabilization Account by a majority vote of each house of the Legislature if: (i) forecasted state employment growth for any fiscal year is less than one percent, or (ii) the Governor declares an emergency resulting from a catastrophic event that requires government action to protect life or public safety. Other withdrawals from the Budget Stabilization Account may be made only by a three-fifths vote of each house of the Legislature.

Initiative 601 also requires downward adjustments in the expenditure limit for costs of any state program or function that is shifted from the General Fund-State to another funding source, or for money that is transferred from the General Fund-State to another fund or account. In the event costs of a federal, state or local government program are transferred to or from the state by court order or legislative enactment, the expenditure limit may be increased or decreased accordingly. Restrictions are placed on the addition or transfer of functions to local governments unless costs are reimbursed.

BUDGETING AND ACCOUNTING

Budget Process

The state operates on a July 1 to June 30 fiscal year and is required under the State Constitution to budget on a biennial basis. State law requires that the Governor submit a balanced budget to the Legislature. The operating budget, capital budget and transportation budget are prepared separately.

The Governor receives operating, transportation and capital budget recommendations prepared by OFM and accepts or modifies them as appropriate. The Governor's budget is presented to the Legislature for consideration in December of even-numbered years.

The Legislature engages in extensive budget deliberations and committee hearings. After revenue and expenditure bills are passed by the House of Representatives and the Senate, the bills are transmitted to the Governor, who has constitutional authority to veto sections of the bills.

During a biennium, supplemental budget requests may be submitted to the Legislature during the regular session or in any special session, subject to the approval of the Governor.

Operating Budget

Formulation of the state's operating budget starts when OFM distributes instructions to all state agencies establishing guidelines and information requirements. Development of agency budgets begins approximately nine months prior to the legislative sessions that convene in odd-numbered years. Formal budget requests from agencies are sent to OFM in late summer, after which they are analyzed and revised by OFM as appropriate. Alternative methods of delivering services are examined and evaluated, and recommended budget levels and program/policy choices are prepared for the Governor by the Director of OFM. State revenues and expenditures are limited by statute. See "Revenues and Expenditures—Revenue and Expenditure Limitations." Under state law, the Governor's budget offered to the Legislature must include estimates of all anticipated revenues and all proposed operating and capital expenditures. Further, the total of beginning undesignated fund balance and estimated revenues less working capital and other reserves shall equal or exceed the total of proposed expenditures.

Fiscal Controls

To ensure that the budget remains in balance, fiscal controls are exercised during the biennium through an allotment process, which requires each agency to submit a monthly expenditure plan. This expenditure plan must be approved by OFM and provides the authority for agencies to spend funds within statutory maximums specified in the legislatively adopted budget. Reports are available that compare actual agency expenditures to estimates.

Budget tables and statistics provided by OFM for inclusion in this Official Statement are based on GAAP, which provides that revenues are recognized and included when they are measurable and earned, regardless of when the funds are received. Given the nature of the state's revenue collection, on an accrual basis revenues are available for expenditure prior to receipt. Recognizing that the expenditure of funds prior to receipt of offsetting revenue would result in negative cash balances, the Legislature has enacted laws that prohibit state agencies from incurring cash deficiencies, except for temporary cash deficiencies resulting from disbursements under an expenditure plan approved by the Legislature, authorized by OFM within a fiscal biennium, or in funds or accounts neither in the state treasury nor in the custody of the State Treasurer. This prohibition does not apply to expenditures of bond proceeds from construction accounts or expenditures resulting in seasonal cash deficits in construction accounts having unexpended appropriation authority pending receipt of additional proceeds of authorized bonds.

If at any time during the fiscal period (the fiscal year or fiscal biennium for which an appropriation is made in a budget act) the Governor projects a cash deficit because disbursements will exceed the

aggregate of estimated receipts plus beginning cash surplus, the Governor is permitted to make across-the-board reductions in allotments to cure the cash deficit, thereby reducing expenditures of appropriated funds, unless the Legislature has directed the liquidation of the cash deficit over one or more fiscal periods. Across-the-board reductions are made only in those funds estimated to have a cash deficit. Amounts garnered from an across-the-board reduction are placed in reserve status.

In addition, if, for any applicable fund or account, the estimated receipts for the next ensuing period plus cash beginning balances are less than the aggregate of estimated disbursements proposed by the Governor for the next ensuing fiscal period, the Governor shall include in the proposed budget the manner in which the anticipated cash deficit shall be met, whether by an increase in the indebtedness of the state, by the imposition of new taxes, by increases in tax rates or an extension thereof, or in any like manner.

Economic and Revenue Forecasting

To assist in its financial planning, the state's Economic and Revenue Forecast Council (the "Forecast Council") prepares quarterly economic and revenue forecasts . The Forecast Council is an independent state agency consisting of six members, two appointed by the Governor and two appointed from each of the political caucuses of the Senate and House of Representatives. The Forecast Council approves the official economic revenue forecast for the state and reviews financial performance at least eight times during the biennium. The development of state budgets and any necessary budgetary actions of the Governor during a fiscal period are required by law to be based upon the official economic and revenue forecasts of the Forecast Council.

In mid-February (or March in odd-numbered years), June, September, and November, subject to the approval of the Forecast Council, the forecast supervisor uses forecasts of the U.S. economy to prepare an official state economic and revenue forecast and two unofficial forecasts, one based upon optimistic economic and revenue assumptions and one based upon pessimistic economic and revenue assumptions.

The most recent state forecast by the Forecast Council was released on June 18, 2009 and is summarized below. The next forecast is expected to be released on or about September 17, 2009. Copies may be obtained from the Office of Economic and Revenue Forecast Council *(www.erfc.wa.gov)*.

Transportation Forecasting

The Office of Financial Management carries out its forecast responsibilities for transportation revenues through the Transportation Revenue Forecast Council, initially formed as an *ad hoc* group in 1976. It has since evolved into a formal body that meets to review and adopt quarterly forecasts prepared by the technical staffs of the Department of Licensing, Department of Transportation and the Forecast Council. The transportation revenue forecasts done by the Transportation Revenue Forecast Council become the official estimated revenues under RCW 43.88.020(20) for transportation-related funds.

U.S. Economic Forecast

The June 2009 economic and revenue forecast incorporated the preliminary Gross Domestic Product ("GDP") estimate for the first quarter of 2009. According to the preliminary estimate, real GDP decreased at a 5.7 percent annual rate in the first quarter, following a 6.3 percent drop in the fourth quarter of 2008. Real final sales fell at a much milder 3.4 percent rate, as inventories were cut. The weakness in the first quarter was concentrated in fixed investment, which declined at a 37.3 percent annual rate. Business investment in nonresidential structures fell at a 42.3 percent rate, business investment in equipment and software fell at a 33.5 percent rate, and residential fixed investment fell at a 38.7 percent rate. After two sharp quarterly declines, real consumer spending rose at a 1.5 percent rate in the first quarter, led by a 9.6 percent jump in purchases of durable goods, mainly autos. Foreign trade was also a net positive in the first quarter, as a 28.7 percent decline in exports was more than offset by a 34.1 percent drop in imports. Government purchases fell at a 3.5 percent rate in the first quarter, as federal defense spending fell at a 6.8 percent rate and state and local government purchases declined at a 2.9 percent rate.

The final GDP estimate released by the United States Bureau of Economic Advisors after the June forecast was adopted shows a smaller 5.5 percent decline in the first quarter.

Payroll employment decreased at a 5.9 percent annual rate in the first quarter of 2009. This was the fifth consecutive decline and the steepest so far in this cycle. The unemployment rate climbed to 8.1 percent in the first quarter and is expected to head higher. As of May, the unemployment rate was already up to 9.4 percent. The consumer price index fell at a 2.4 percent rate in the first quarter, following an 8.3 percent decline in the fourth quarter. The deflation in the headline CPI was due to energy costs, which fell at a 34.3 percent rate in the first quarter. Core CPI inflation, which excludes food and energy, was weak but still positive, growing at an annual rate of 1.5 percent. Housing starts fell at a 58.2 percent annual rate in the first quarter to 0.529 million units, while the mortgage rate fell to 5.1 percent from 5.9 percent.

The new national GDP forecast is very similar to the forecast adopted in March. The recession is expected to officially end sometime in the third quarter with a peak-to-trough decline in real GDP of 3.6 percent, only slightly weaker than the 3.5 percent drop expected in March. The forecast assumes a "U" shaped recovery. A rapid recovery is not likely after such an extreme financial shock. Growth turns slightly positive in the second half of 2009, but remains weak for a year, increasing in the second half of 2010 and 2011. While the revision to the GDP forecast is minimal, labor markets have weakened more severely than assumed in March. The unemployment rate, which has already risen from a cyclical low of 4.4 percent in December 2006 to 9.4 percent in May 2009, is expected to climb to 10.0 percent in the second quarter of 2010. Payroll employment and personal income are also lower in the new forecast.

Annual GDP growth slowed to 1.1 percent in 2008 from 2.0 percent in 2007 and 2.8 percent in 2006. The forecast expects a 2.7 percent decline in real GDP this year before recovering to 2.0 percent in 2010 and 3.2 percent in 2011. On an annual average basis, nonfarm payroll employment declined 0.4 percent in 2008 and is expected to fall 3.6 percent in 2009 and another 0.2 percent in 2010. The forecast assumes a 1.7 percent increase in employment in 2011 as the economy recovers. The annual averages mask the trend of employment growth during this period. On a Q4 over Q4 basis, which provides a better idea of employment growth during the year, the growth rates are -3.3 percent, 0.9 percent, and 2.1 percent for 2009, 2010, and 2011, respectively. The annual average unemployment rate rose to 5.8 percent in 2008 from 4.6 percent in 2007. The forecast expects the unemployment rate to rise to 9.2 percent this year, peaking at 9.9 percent in 2010 before recovering somewhat to 9.4 percent in 2011. Inflation, as measured by the implicit price deflator for personal consumption expenditures, rose to 3.3 percent in 2008 from 2.6 percent in 2007. Energy costs continue to boost overall inflation. Core inflation, which excludes food and energy, was only 2.2 percent in 2008, the same as in 2007. Lower energy costs this year should hold headline inflation to only 0.5 percent. The implicit price deflator is expected to rise 1.8 percent in 2010 and 2.0 percent in 2011.

Washington State Economic Forecast

Washington nonfarm payroll employment fell at a 5.8 percent annual rate in the first quarter of 2009, following a 4.9 percent drop in fourth quarter of 2008. The Boeing machinists' strike distorted the fourth quarter and first quarter employment growth rates. Without the strike, nonfarm payroll employment would have fallen at a 6.9 percent annual rate in the first quarter, much worse than the 3.9 percent rate in the fourth quarter. Excluding the temporary impact of the machinists' strike, manufacturing employment fell at a 14.1 percent rate in the first quarter, with aerospace declining at a 3.3 percent rate and all other manufacturing employment falling at an 18.3 percent rate. Construction employment fell at a 22.9 percent rate in the first quarter. The weakness in construction was broad-based; residential building and related special trades employment fell at a 24.5 percent rate, nonresidential and related special trades employment fell at a 20.7 percent rate, and heavy and civil engineering employment fell at a 24.7 percent rate. Natural resources (logging) and mining employment, while small, fell at a 23.3 percent rate in the first quarter. Among the private services-producing sectors, only education and health services employment remained positive, with a 2.1 percent growth rate. Professional and business services fell at a 12.9 percent annual rate in the first quarter, and financial activities employment fell at an 8.4 percent

rate. Employment in trade, transportation and utilities, "other services," and leisure and hospitality fell at 6.3 percent, 5.2 percent, and 4.7 percent annual rates, respectively. Information employment fell at a 4.4 percent rate in the first quarter. Software publishing employment rose at a 0.8 percent rate, but all other information employment fell at a 9.4 percent rate. In the public sector, state and local government employment declined at a 0.9 percent rate, while federal government employment rose at a 1.6 percent rate.

The forecast assumes that Washington personal income fell at a 0.5 percent rate in the first quarter of 2009. Personal income growth is being distorted by ongoing problems with the seasonal adjustment of software wages. Excluding software, personal income growth in the first quarter would have been -1.9 percent. The forecast assumes that wage and salary disbursements fell at a 1.2 percent rate in the first quarter (3.9 percent excluding software). The decline in total wage growth was due to the sharp decline in employment in the quarter; average wage growth may actually have been positive. The forecast assumes that income from sources other than wages increased at a 0.4 percent annual rate in the first quarter.

The forecast also incorporates Seattle consumer price data through April 2009. After trailing the national average during 2002, 2003, and 2004, December-December Seattle inflation moved ahead of the national average in 2005, 2006, 2007, and 2008. Seattle inflation during the twelve months ending in December 2008 was 1.7 percent, compared to the U.S. rate of -0.1 percent, and core inflation in Seattle averaged 3.6 percent versus 1.7 percent for the U.S. city average. The stronger inflation in Seattle compared to the U.S. city average during the last few years was mostly due to shelter costs, in particular, rent and owners' equivalent rent. These components weakened considerably in the first few months of 2009. As a result, the Seattle Consumer Price Index ("CPI") has risen at an annual rate of only 0.1 percent so far this year, compared to 1.6 percent for the U.S. city average.

The number of housing units authorized by building permits fell from 22,300 in the fourth quarter of 2008 to 15,100 in the first quarter of 2009. Total housing permits are now at their lowest level since 1982. Single-family permits fell to 10,000 units from 12,900 in the prior quarter, while multi-family permits fell to 5,200 from 9,400. The data for the first two months of the second quarter were slightly higher than expected in the forecast. Multi-family permits fell further to an annual rate of 2,300, as expected, but single-family permits increased to 11,500 units.

Washington employment growth since January has been much weaker than expected in March. On top of that, the monthly estimates through January 2009 were revised down based on newly available payroll data for the fourth quarter of 2008. As of May, nonfarm payroll employment was about 33,700 (1.2 percent) lower than expected in the March forecast. Most (70 percent) of the forecast error was in two sectors, construction and professional and business services. Between the revision to the history and the forecast error since January, construction employment was 11,300 (6.3 percent) below the March forecast. The recent decline in professional and business services employment was mostly in administrative and support services, which includes employment services. The number of single-family housing permits was close to the forecast in the first quarter. No significant improvement in housing permits is expected until late this year. The construction employment forecast is weaker than assumed in March, in part because of lower housing activity, but also as a result of a deeper downturn in nonresidential construction. Construction employment is expected to decline by about 54,000 (25.8 percent) from its peak in the fourth quarter of 2007 through the second quarter of 2010. The aerospace employment forecast reflects Boeing's announcement that production of the 777 will be cut from seven per month to five per month in mid-2010. The forecast assumes a total reduction of 6,900 aerospace jobs (8.0 percent) from the end of 2008 to the end of 2011 (excluding the impact of the machinists' strike), compared to 4,100 in the March forecast. The new software employment forecast is higher than assumed in March, as employment reductions so far this year have been less than expected. Software employment is expected to decline by 1,800 (3.4 percent) from the fourth quarter of 2008 to the fourth quarter of 2009, turning positive again in 2010 and 2011. A decline of 7,500 (1.6 percent) in state

and local government jobs is expected in the second half of this year as governments respond to declining revenue. Total Washington nonfarm payroll employment is expected to continue to decline through the end of the year, with a peak-to-trough decline of 145,300 (4.9 percent). The state's unemployment rate, already at 9.4 percent, is expected to peak at 10.5 percent in the second quarter of 2010. While the bottom of the recession is clearly going to be lower than expected in March, there are signs that the recession's end is nearing. The rate of decline in payroll employment appears to be moderating, and initial claims for unemployment insurance, while high, have declined for the last two months. The local economy is expected to bottom out at about the same time as the national economy, with positive, but weak, job growth resuming in early 2010.

On an annual average basis, Washington nonfarm payroll employment grew 0.9 percent in 2008 despite declines in each of the last three quarters of the year. On a Q4 to Q4 basis, employment declined 1.0 percent. Washington's relatively strong employment growth in recent years was largely driven by strong growth in construction, aerospace, and software. But construction is already in decline, and both aerospace and software have peaked for now. The primary reason for the gloomy outlook for the Washington economy is the severe downturn in the national economy, which is producing job losses in a wide range of industries including manufacturing, financial services, trade, and business services (especially temporary help services). The forecast calls for nonfarm payroll employment to fall 3.7 percent this year. Average annual employment is expected to grow 0.1 percent and 2.4 percent in 2010 and 2011, as the national economy recovers from the recession. The Q4 over Q4 growth rates for nonfarm payroll employment for 2009, 2010, and 2011 are -3.4 percent, 1.5 percent, and 2.9 percent, respectively. Washington personal income growth fell from 8.1 percent in 2007 to 4.0 percent in 2008. Income growth is expected to slow to 0.1 percent in 2009 before recovering to 3.4 percent and 5.3 percent in 2010 and 2011, respectively. After three years in excess of 50,000 per year, the number of housing units authorized by building permit fell to 47,400 in 2007 and 28,900 in 2008. The forecast assumes permits will fall again this year to a cyclical low of 14,400 units before recovering to 23,600 in 2010 and 35,500 in 2011. Inflation, as measured by the Seattle CPI, increased to 4.2 percent in 2008 from 3.9 percent in 2007. Core inflation (excluding food and energy) declined slightly to 3.4 percent in 2008 from 3.5 percent in 2007. Core inflation is moderating as shelter costs flatten. Also, rising energy costs have boosted inflation in recent years, but not this year. Lower energy prices in 2009 should hold headline inflation in Seattle to just 0.7 percent. Higher inflation is expected in 2010 and 2011 as the economy recovers and energy prices move up again. The forecast expects Seattle CPI inflation rates of 2.2 percent in 2010 and 2.5 percent in 2011.

Alternative Economic Forecasts

The Washington State Economic and Revenue Forecast Council also adopted an optimistic forecast and a pessimistic forecast in June 2009.

Optimistic Forecast. In the optimistic scenario, the rapid response of the Federal Reserve to the crisis in financial markets, coupled with the Treasury's "rescue" plan, Congress' stimulus package, and help from central banks abroad work, limiting the downside. There is no additional economic stimulus above the level in the baseline, but the primary difference is that the stimulus produces results more quickly, resulting in growth of more than three percent in the third quarter. In addition, the standard optimistic scenario assumption of stronger total factor productivity growth is in place. A stronger economy means that inflation is higher in the optimistic scenario than in the baseline (particularly in commodities). The stronger sales pace during 2009 in the optimistic scenario requires less of an inventory reduction than in the baseline, with demand recovery trimming inventories back to desirable levels. With credit again flowing late this year, business fixed investment rebounds 6.5 percent in 2010, after suffering a severe 16.8 percent contraction in 2009. The downturn in residential investment is also less severe in the optimistic scenario, with housing starts beginning to recover during the second half of 2009 and averaging close to 600,000 units for the year. The optimistic scenario also assumes faster growth in the rest of the world, and a weaker dollar than does the baseline forecast. These assumptions produce a "V" shaped recovery rather than the more gradual "U" shape assumed in the baseline. After falling 1.1 percent in the

second quarter, real GDP undergoes a sharp turnaround, climbing 3.4 percent and 3.7 percent in the third and fourth quarters of 2009, respectively. For Washington, the optimistic forecast assumes aerospace employment remains essentially flat through 2011 rather than declining as in the baseline. Software employment also remains flat this year rather than declining as in the baseline, and also grows faster in 2010 and 2011. Washington's wages grow faster than in the baseline, and the strong regional economy raises Seattle CPI inflation above the baseline forecast in the optimistic scenario, in spite of stronger productivity growth. The initial level of Washington personal income is higher in the optimistic scenario, and population growth is stronger. Finally, construction employment declines much less during 2009 and recovers more sharply in 2010 and 2011 than in the baseline. By the end of the 2009-11 Biennium, Washington nonagricultural employment is higher by 113,400 jobs than in the baseline forecast and Washington personal income is $17.6 billion higher. The optimistic scenario generates $31 million (0.1 percent) more revenue in the 2007-09 Biennium and $1,636 million (5.5 percent) more revenue in the 2009-11 Biennium than does the baseline forecast.

Pessimistic Forecast. The pessimistic scenario is more than a recession, but not quite a depression. The simulation assumes that the financial crisis worsens, sending the economy into its deepest downturn since the Great Depression. Credit markets remain clogged, both domestically and across the world. Without access to credit, domestic spending contracts and the housing market falls into an even deeper hole. The pessimistic scenario assumes that the downward spiral in financial markets continues into 2010, and that there is growing protectionist sentiment worldwide. Oil prices are lower over the short run in this scenario because world demand is falling. As a result, bottom-line inflation is lower. Core inflation is also lower because demand is so weak. In this scenario, the housing recession drags on. Housing starts begin to turn around from record-low levels—just as in the baseline— but the rebound is sluggish, and the weakness in housing undermines consumer confidence. This, along with the drop in wealth associated with falling home prices and a slowdown in job growth, causes consumers to retrench sharply. Capital spending is weaker, as firms respond to a bleaker outlook by scuttling long-term projects. Foreign economic growth is lower, which cuts into export growth. In this scenario, employment drops for 11 straight quarters (the economy loses 9.2 million jobs), manufacturing output falls over 11 straight quarters, and real GDP drops for seven straight quarters, starting with the third quarter of 2008. At the state level, the decline in aerospace employment is much more severe than in the baseline. Software employment declines through mid-2011 rather than turning positive in early 2010. In this scenario, data revisions show that the initial level of Washington personal income is lower than was assumed in the baseline, and population growth is slower. Construction employment falls much more rapidly than in the baseline, and, rather than turning positive late in 2010, continues to decline through mid-2011. Seattle inflation is lower than in the baseline forecast and the weak economy also depresses Washington wage growth below the rate of growth in the baseline forecast. By the end of the 2009-11 Biennium, Washington nonagricultural employment is 137,600 lower than in the baseline forecast and Washington personal income is $23.6 billion lower. The pessimistic scenario produces $32 million (0.1 percent) less revenue in the 2007-09 Biennium and $1,979 million (6.6 percent) less in the 2009-11 Biennium than does the baseline forecast.

Current Operating Budget

The following tables provide the final enacted operating budget for the 2007-2009 Biennium and the enacted operating budget for the 2009-2011 Biennium. The 2009 supplemental budget and the 2009-2011 legislative budget were signed by the Governor on May 19, 2009.

GENERAL FUND REVENUES
Modified Accrual Basis
(millions)

	2007-2009 Estimate	2009-2011 Estimate
Beginning General Fund-State Balance	$ 781	$ 194
General Fund-State Revenue		
Retail Sales and Use Taxes	$ 15,546	$ 15,396
Real Estate Excise Tax	1,048	999
Business and Occupation Tax	5,352	5,593
Property Tax	3,028	3,152
Other Taxes	2,147	2,230
Subtotal Tax Revenue	$ 27,121	$ 27,370
Other Nontax Revenue	$ 635	$ 414
Other Financing	(50)	(80)
Total Current Revenues	$ 27,706	$ 27,704
Previous Transfers from Other Funds/Other Adjustments	$ 147	$ 0
2008 Prior Period Adjustments	(7)	0
2009 Session: Revenue Transfers	517	829
2009 Legislative Merge of Related Accounts	0	2,221
2009 Legislative Transfer in from Budget Stabilization	400	45
Transfer to Budget Stabilization Account	(117)	(269)
Total General Fund-State Revenue*	$ 29,427	$ 30,724
Federal Revenue	$ 12,238	$ 13,305
Private/Local Revenue	455	475
Total	$ 42,120	$ 44,504

* Includes beginning balance.

GENERAL FUND EXPENDITURES
Modified Accrual Basis
(millions)

	2007-09 Estimate	2009-11 Estimate
Education		
Public Schools	$ 12,245	$ 13,168
Higher Education	3,183	2,937
Other Education	181	166
Total Education	$ 15,609	$ 16,271
Human Services		
Department of Social and Health Services	$ 8,489	$ 8,955
Department of Corrections	1,729	1,581
Other Human Services	230	714
Total Human Services	$ 10,448	$ 11,250
Natural Resources and Recreation	$ 452	$ 380
Government Operations	531	479
Other Expenditures*		
Debt Service	$ 1,570	$ 1,813
Other Expenditures	623	725
Total Other Expenditures	$ 2,193	$ 2,538
Total General Fund-State Expenditures	$ 29,233	$ 30,918
Federal	$ 12,238	$ 13,305
Private/Local	455	475
Total	$ 41,926	$ 44,698
Ending General Fund-State Balance	$ 194	$ (194)
Budget Stabilization Account	24	248
Total Reserves	$ 218	$ 54

* Includes legislative, judicial and transportation agencies, as well as debt service and contributions to LEOFF and Judges and Judicial Retirement System. See "Retirement Systems."

For the 2007-09 Biennium, General Fund-State revenues were projected to be $27.7 billion, a 0.2 percent increase from the 2005-07 Biennium, plus a carry-forward of $781 million. In addition to this revenue, there was a net $940 million in revenue transfers to and from other funds, plus other adjustments. This included the first annual transfer of $117 million into the new Budget Stabilization Account (also known as the Rainy Day Account), which was approved by the voters in November 2007.

The operating budget for the 2007-09 Biennium contained an overall expenditure level of $29.2 billion for General Fund-State, which is an increase of $1.4 billion or 5.3 percent over the 2005-07 Biennium. This expenditure level was lower than previously reported, with the enactment of ESHB 1694. This bill captured savings made possible by spending freezes and various other steps to reduce expenditures that were ordered by the Governor starting in August 2008, added to during the fall months, and adopted by the Legislature in this bill. This latest step was designed to help bring the 2007-2009 Biennium budget into balance, as well as to create savings that will carry forward into the 2009-11 Biennium. The 2007-09 budget also included a portion of the federal stimulus funding provided in the American Recovery and Reinvestment Act ("ARRA"), signed into law on February 19, 2009. On April 25, 2009, the Legislature passed a second 2009 supplemental budget, which included the use of about $1 billion in federal stimulus

funding to further reduce the General Fund budget for 2007-09, to bring it into balance with existing resources.

In the 2007-09 Biennium, 53 percent of the General Fund-State budget was used to support public schools and higher education. The funding for K-12 public schools included special education funding, classified staff recognition, and the increased cost of teacher and staff health benefits and salaries. The higher education funding provided for more than 9,700 student enrollment increases in public two- and four-year colleges and universities, and increases in need grants.

The spending for human service delivery systems provided by DSHS makes up approximately 29 percent of the state budget. According to Washington's WorkFirst program, currently less than 1.9 percent of the state's population receives welfare benefits. Since 1997, the number of families on welfare has dropped 46 percent, from nearly 96,000 to less under 56,000 in December 2008. Most program participants who go to work earn more than $9 an hour. The largest DSHS program is the Medical Assistance Program, which, at $3.3 billion, comprises 36 percent of the 2007-09 DSHS budget.

The 2007-09 Biennial Budget contained compensation increases for K-12 teachers and state employees, including general salary increases, partial salary survey implementation, a new step increase for employees who have been at the top of their pay range for at least one year, a pension rate decrease as the result of eliminating gainsharing and replacing it with more affordable benefits, and health benefit rate increases.

For the 2009-11 Biennium, the make-up of the General Fund was changed by the passage of ESSB 5073, which merged Health Services, Public Safety and Education, Equal Justice, Student Achievement, Water Quality, and Violence Reduction and Drug Enforcement into the General Fund. Before these accounts are merged into the General Fund-State, revenues are projected to be $27.7 billion, a zero percent increase from the 2007-09 Biennium, plus a carry-forward of $398 million. Once these accounts are merged into the General Fund, the revenues are projected to be $29.9 billion, an increase of 8.4 percent over the 2007-09 Biennium. Also included is $874 million in a shift of revenue to and from other funds, plus other adjustments. There is also a transfer of $269 million into the Budget Stabilization Account (the Rainy Day Account).

The operating budget for the 2009-11 Biennium contains an overall expenditure level of $30.9 billion for General Fund-State, which is an increase of $1.7 billion or 5.9 percent over the 2007-09 Biennium after the merger of the related accounts.

In the 2009-11 Biennium, 52 percent of the General Fund-State budget will go to supporting public schools and higher education. The funding for K-12 public schools includes special education funding, classified staff recognition, and the increased cost of teacher and staff health benefits. Higher education funding, despite an allocation of $81.5 million of federal stimulus funding, is about 17 percent below the amount needed to continue the current level of programs and activities. About $230 million in reductions is offset by tuition increases, which are expected to be about 14 percent per year for resident undergraduates at the public baccalaureate institutions, and seven percent per year at the community and technical colleges. The net reductions after assuming the tuition increases are between six percent and seven percent. Because of these reductions, student enrollment is expected to be reduced by about 3,500 students.

The 2009-11 biennial budget contains no salary increases for K-12 teachers and state employees, but does include health benefit rate increases. Funding for pension contributions is reduced to reflect changes to actuarial assumptions and methods used for the state's various retirement systems (reduction of the assumed rate of salary growth, delay of the adoption of new mortality tables until the 2011-13 Biennium, suspension of contribution rate minimums for the 2009-11 Biennium in all plans except for the

Washington State Patrol Retirement System, modification of the total contribution rate minimum in that retirement system, and phased adoption of a new funding method for the Plan 1 unfunded liabilities.

The following tables provide the General Fund-State budget for the 2007-09 and 2009-2011 Biennia.

2007-09 BIENNIUM
GENERAL FUND-STATE FORECAST ADJUSTMENTS
(Modified Accrual Basis)
(in Millions)

Beginning Fund Balance	$ 781
Revenue Updates	
November 2006	$ 29,533
March 2007	(18)
June 2007	331
September 2007	213
November 2007	(130)
February 2008	(423)
June 2008	(50)
September 2008	(167)
November 2008	(503)
March 2009	(736)
June 2009	(184)
2007 Session Legislative Changes	(19)
2008 Session Legislative Changes	(11)
2009 Session Legislative Changes	518
2009 Legislative Transfer in from Budget Stabilization	400
Smokeless Tobacco Settlement	(23)
Rainy Day Account (Budget Stabilization)	(117)
Changes in Reserves and Other Adjustments	32
Total Sources	$ 29,427
Total Expenditures	$ 29,233
Ending General Fund-State Balance	$ 194
Budget Stabilization Account	24
Total Reserves	$ 218

2009-2011 BIENNIUM
GENERAL FUND-STATE FORECAST ADJUSTMENTS
(Modified Accrual Basis)
(in Millions)

Beginning Fund Balance	$ 194
Revenue Updates	
February 2008	31,918
June 2008	(153)
September 2008	(256)
November 2008	(1,428)
March 2009	(2,125)
June 2009	(502)
2009 Session Legislative Changes	1,079
2009 Legislative Transfer in from Budget Stabilization	45
2009 Legislative Merge of Related Accounts	2,221
Rainy Day Account (Budget Stabilization)	(269)
Changes in Reserves and Other Adjustments	0
Total Sources	$ 30,724
Total Expenditures	$ 30,918
Ending General Fund-State Balance	$ (194)
Budget Stabilization Account	251
Total Reserves	$ 57

Note: Totals may not add due to rounding.

Source: Office of Financial Management

Shortfall Addressed in the Enacted 2009 Supplemental Operating Budget and the 2009-11 Biennial Operating Budget

The Governor's proposed 2009 supplemental operating budget and the proposed operating budget for the 2009-11 Biennium released in December 2008 addressed an approximately $5.7 billion shortfall in revenues that occurred during the remainder of the 2007-09 Biennium and is continuing in the 2009-11 Biennium. By the time the Legislature approved its final budget in April, the revenue shortfall had grown to nearly $9 billion over the three-year period. This shortfall is expected as a result of predicted significant declines in revenue and increases in the cost of providing services such as basic education and medical assistance, and higher caseloads. Like the Governor's 2009 and 2009-11 proposed budgets, the legislative budget addressed this estimated revenue shortfall by proposing substantial reductions in state expenditures in the areas of natural resources, health care and human services, higher education, early learning, public safety and K-12 education (other than basic education). The legislative 2009-11 budgets do not reduce expenditures for items the state is required to provide, including basic education, federally mandated Medicaid, pensions and debt service, and do not include any proposed tax increases. Included in the legislative budget is the estimated federal stimulus funding that is expected to be received by the state over the next three years. Stimulus funding is included in the operating, capital and transportation budgets.

Capital Budget

The following table provides the final legislative capital budget for the 2007-2009 Biennium and the legislative capital budget for the 2009-2011 Biennium.

CAPITAL BUDGET
(Modified Accrual Basis)
(in Millions)

	2007-09 Estimate	2009-11 Estimate
Education		
Public Schools	$ 1,254	$ 1,190
Higher Education	1,539	1,305
Other Education	45	30
Total Education	$ 2,838	$ 2,525
Human Services		
Department of Social and Health Services	$ 85	$ 44
Other Human Services	518	259
Total Human Services	$ 603	$ 303
Natural Resources and Recreation	$ 1,721	$ 1,568
General Government	1,952	1,270
Transportation	17	10
Total Capital Budget Expenditures	**$ 7,131**	**$ 5,676**

Source: *Office of Financial Management*

The state's 2007-09 biennial capital budget adopted by the Legislature provided for $4.4 billion expenditures in new projects and $2.3 billion for reappropriations. Of this total, $2.5 billion in expenditures were to be funded from the sale of general obligation bonds that were subject to the state's statutory debt limit.

In the 2007-09 capital budget, $1.539 billion was provided for higher education projects, $1.254 million for K-12 education, and $1.721 million for natural resource projects ($202 million specifically for Puget Sound). Other capital funds are divided across the remaining state governmental functions.

The state's 2009-11 biennial capital budget adopted by the Legislature provides for $3.3 billion expenditures in new projects, with $2.4 billion for reappropriations. Of this total, $1.9 billion in expenditures is to be funded from the sale of general obligation bonds.

In the 2009-11 capital budget, $1.4 billion is provided for higher education projects, $1.2 million for K-12 education, and $1.6 million for natural resource projects. Other capital funds are divided across the remaining state governmental functions.

The largest projects in the 2009-11 capital budget include: School Construction Grants, $689 million ($428 million in general obligation bonds); Housing Assistance, $100 million ($90 million in bonds); Western Washington University—Miller Hall Renovation, and $56.625 million in general obligation bonds.

The capital budget contains $188.6 million in federal stimulus funding for Community Development Block Grants, Low-Income Weatherization, Drinking Water Assistance Program, Leaking Underground Tanks, Diesel Emissions Reduction, Water Pollution Control Revolving Fund Program, Habitat Restoration Grants, and Hazardous Fuels Reduction, Forest Health, and Ecosystem Improvements.

Chapter 500, Laws of 2009 (Substitute Senate Bill 5537), effective July 1, 2009, repealed the statutory debt limit with the result that there is now a single debt limit: the constitutional debt limit. This will increase the transparency of this calculation for the public and interested parties.

Another change made by the Legislature will also result in the state's ability to incur additional debt under the constitutional debt limit. ESSB 5073 merged the following accounts into the General Fund: Health Services, Public Safety and Education, Equal Justice, Student Achievement, Water Quality, and Violence Reduction and Drug Enforcement. The bill also deletes the statutory dedication of these revenues with the exception of the revenues into the Student Achievement Account. The resulting increases in revenues treated as general state revenues will have the effect of increasing the base against which the constitutional debt limit is measured, as well as increasing deposits to the Budget Stabilization Account (the Rainy Day Fund). See the information under "Indebtedness—General Obligation Debt" below.

Transportation Budget

The Legislature passed the state transportation budget for the 2007-09 Biennium on April 21, 2007, and the Governor signed the bill on May 15, 2007. The total $7.6 billion budget included $4.6 billion for the Department of Transportation capital funding for roads, bridges, ferries, rail, and transit improvements. The transportation budget bill also contained funding for the Washington State Patrol, the Department of Licensing and other transportation agencies. The budget included $860 million for the SR 520 project and created a $1 billion reserve from which either SR 520 or the Alaskan Way Viaduct can draw. The Regional Transportation Investment District, tolling and other funding mechanisms were used to fund the remainder of the project costs. On March 4, 2009, the Legislature passed ESHB 1978, which was signed by the Governor on March 5th. The bill included both the 2009 supplemental budget and the $341 million in federal stimulus funding that will be awarded to the state for highway/transportation projects, and included a total funding level of $7.2 billion for transportation.

The Legislature passed the state transportation budget for the 2009-11 Biennium on April 25, 2009. The total $7.7 billion budget includes $4.4 billion for the Department of Transportation capital funding for roads, bridges, ferries, rail, and transit improvements. The transportation budget bill also contains funding for the Washington State Patrol, the Department of Licensing and other transportation agencies. The budget includes a deep bored tunnel to replace the Alaskan Way Viaduct, funded from a combination of $2.4 million from the state, local funding, and as much as $400 million in toll revenue. The Legislature authorized tolling on the SR 520 Bridge beginning in 2010. The total cost of the SR 520 project may not exceed $4.65 billion. Improvements to I-90 across Snoqualmie Pass include adding an additional lane in each direction, extending chain-up areas, building several new bridges, and improving culverts. This $595 million project will be operationally complete in 2015. The budget also provides $11 million for the purchase of three 64-auto ferries that will go into service in June 2010, August 2011, and August 2012. The bill reappropriates the $341 million in federal stimulus funding that will be awarded to the state for highway/transportation projects. Any amount spent in Fiscal Year 2009 was reduced from this funding level once the 2007-09 Biennium was closed.

Accounting and Auditing

The state's accounting records are maintained in conformance with generally accepted accounting principles ("GAAP"), as promulgated by the Governmental Accounting Standards Board ("GASB"). The accounting system produces monthly financial statements at the state-wide combined level and at the agency level, which are used in the preparation of the state's fiscal year Comprehensive Annual Financial Report ("CAFR").

The Government Finance Officers Association of the United States and Canada has awarded a Certificate of Achievement for Excellence in Financial Reporting to the state for its CAFR for each of the Fiscal Years 1987 through 2007.

The State Auditor, an independent elected official, audits the state-wide combined financial statements each fiscal year. Such audits are required to include determinations as to the validity and accuracy of accounting methods, procedures and standards utilized in preparation of such financial statements, as well as the accuracy of such financial statements themselves.

The state's fiscal 2008 CAFR contains annual financial statements prepared in accordance with GAAP as promulgated by GASB (the "2008 Annual Financial Statements"), a copy of which has been filed with each nationally recognized municipal securities information repository ("NRMSIR"). Excerpts from the state's 2008 CAFR are attached as Appendix D. Copies of the state's entire 2008 CAFR are available on the OFM's website at *http://www.ofm.wa.gov/cafr/2007/default.asp* or upon request from the Office of the State Treasurer.

INVESTMENTS

The State Treasurer's Office is responsible for the investment management of the state's operating funds totaling approximately $2 billion to $6 billion from time to time through its Treasurer's Cash Management Account (the "CMA"). The Treasurer also is responsible for administering the Washington State Local Government Investment Pool (the "LGIP"), an approximately $6 billion fund that invests money on behalf of more than 400 cities, counties, special purpose districts, and higher education institutions.

Permissible investments for both funds include U.S. government and agency securities, bankers acceptances, high quality commercial paper, repurchase and reverse repurchase agreements, and certificates of deposits with qualified state depositories.

Treasurer's Cash Management Account. The CMA is a nonvoluntary pool of state agency funds; agencies are not permitted to make discretionary withdrawals for alternative investment purposes. The CMA may invest in securities with maturities out to ten years. The average life of the CMA generally ranges from one to two years.

In its management of the CMA pursuant to the Investment Policy adopted by the State Treasurer in January 2001, the State Treasurer sets its investment objectives pursuant to modern portfolio theory. To manage state funds more efficiently and effectively, the State Treasurer's CMA investments are separated into two portfolios, each with its own risk objectives. The policy sets forth, among other things, the practices, procedures and restrictions applicable to the investment of funds and specifically denominates eligible investments and certain restrictions on portfolio composition. Internal controls and reporting requirements are mandated by the Investment Policy to allow for oversight and monitoring of performance.

Local Government Investment Pool. The LGIP, authorized by state law, is a voluntary pool that provides its participants the opportunity to take advantage of the economies of scale inherent in pooling. It also is intended to offer participants increased safety of principal and the ability to achieve a higher investment yield than otherwise would be available to them. The LGIP is a conservatively managed, highly liquid pool comparable to a money market fund, restricted to investments with maturities of 397 days or less. The average life generally ranges from 30 to 60 days.

The LGIP adheres to the traditional principles applicable to the prudent investment of public funds, which are, in order of priority: (i) the safety of principal, (ii) the assurance of sufficient liquidity to meet cash flow demands, and (iii) the attainment of the highest possible yield within the constraints of the first two goals. Historically, both the CMA and the LGIP have had sufficient liquidity to meet all cash flow demands.

WASHINGTON STATE TREASURER PORTFOLIOS
AVERAGE DAILY BALANCES BY SECURITY CLASS

	May 2009		June 2008-May 2009*	
CMA				
Agency Bullets	$ 685,602	23.91%	$ 1,790,624	51.95%
Agency Callables	1,014,104	35.37%	748,084	21.71%
Agency Floating Rate Notes	30,000	1.05%	64,438	1.87%
Certificate of Deposit	15,161	0.53%	157,345	4.57%
Certificate of Deposit-Linked Deposit	97,419	3.40%	124,602	3.62%
Certificate of Deposit-TCD	196,718	6.86%	241,931	7.02%
NOW Accounts	518,997	18.10%	278,301	8.07%
Reverse Repo	(59,856)	-2.09%	(12,839)	-0.37%
TLGP Bonds	369,166	12.87%	54,082	1.57%
Total	$ 2,867,311	100.00%	$ 3,446,568	100.00%
Weighted Average Maturity:	737 days			
LGIP				
Agency Bullets	$ 156,452	1.72%	$ 428,206	6.15%
Agency Discount Notes	1,356,654	14.90%	2,343,894	33.64%
Agency Floating Rate Notes	1,943,785	21.35%	1,797,124	25.79%
Agency Variable Rate Notes	864,891	9.50%	520,298	7.47%
Certificates of Deposit	316,129	3.47%	484,608	6.95%
IB Bank Deposit	142,114	1.56%	144,521	2.07%
NOW Accounts	1,853,346	20.36%	635,278	9.12%
Repurchase Agreements	174,020	1.91%	132,755	1.91%
Reverse Repo	(215,630)	-2.37%	(18,314)	-0.26%
US Treasury Bills	2,487,239	27.32%	483,791	6.94%
US Treasury Coupons	25,250	0.28%	15,663	0.22%
Total	$ 9,104,250	100.00%	$ 6,967,824	100.00%
Weighted Average Maturity:	63 days			

*Average balance

ASSET LIABILITY MANAGEMENT

Up to ten percent of the state's total general obligation debt may be in variable rate form under a policy adopted by the Committee in July 1995. Most of the state's debt has been issued in long-term, fixed-rate form, while state investments are made in short-term instruments.

INDEBTEDNESS

Debt Issuance Policy

All state general obligation debt and other evidence of indebtedness is authorized by the Legislature and issued under the authority granted to the Committee by the Legislature.

In 1996, the Committee adopted a Debt Issuance Policy that, among other things, addresses the roles and responsibilities of the Committee and the State Treasurer, standards of conduct and appointment of professional service providers. The Debt Issuance Policy also addresses methods of sale, appointments of underwriters, pricing and allocation of negotiated sales, and refunding savings thresholds.

Under "Conditions of Sale," the Debt Issuance Policy generally calls for (i) level debt service, i.e., approximately equal amounts of principal and interest per year; (ii) fixed interest rates; and (iii) debt life shorter than or equal to estimated useful life of the facility financed. These conditions may not apply in all cases.

The state, through the State Finance Committee, is authorized by law to enter into payment agreements such as interest rate swaps, but to date has not done so.

General Obligation Debt

General Obligation Debt Authority. The State Constitution and enabling statutes authorize by three different means the incurrence of state general obligation debt, the payment of which is secured by a pledge of the state's full faith, credit and taxing power:

(i) by the affirmative vote of 60 percent of both houses of the Legislature, without voter consent (in which case the amount of such debt is generally but not always subject to the constitutional limitation; see "Constitutional General Obligation Debt Limitation" below);

(ii) by the affirmative vote of 50 percent of both houses of the Legislature and a majority of the voters voting thereon (in which case the amount of the debt so approved is not subject to other constitutional limitations; see "Constitutional General Obligation Debt Limitation" below); or

(iii) by a body designated by statute (currently the Committee) without limitation as to amount, without approval of the Legislature (except as to appropriation of the sums borrowed) and without the approval of the voters; however, such debt:

  (a) may be incurred only to meet temporary deficiencies of the State Treasury, to preserve the best interests of the state in the conduct of the various state institutions, departments, bureaus, and agencies during each fiscal year;

  (b) must be discharged, other than by refunding, within 12 months of the date of incurrence;

  (c) may be incurred only to provide for appropriations already made by the Legislature; or

  (d) may be incurred to refund outstanding obligations of the state.

The State Constitution also permits the state to incur additional debt to repel invasion, suppress insurrection or to defend the state in war.

Constitutional General Obligation Debt Limitation. With certain exceptions noted below, the amount of state general obligation debt which may be incurred by the means described in the section entitled "General Obligation Debt Authority" above is limited by the State Constitution. The former statutory limitation on the state general obligation debt was repealed by Chapter 500, Laws of 2009 (Substitute Senate Bill 5537), effective July 1, 2009. The constitutional limitation prohibits the issuance of new debt if the new debt would cause the maximum annual debt service on all thereafter outstanding general obligation debt to exceed nine percent of the arithmetic mean of general state revenues for the three immediately preceding fiscal years. This limitation restricts the incurrence of new debt and not the amount of debt service which may be paid by the state in future years.

"General state revenues" is defined for purposes of the constitutional limitation as including all state money received in the State Treasury, with certain exceptions that include (i) fees and revenues derived from the operation of any facility; (ii) earmarked gifts, grants, donations, and aid; (iii) money for retirement system funds and performance bonds; (iv) money from trust funds, proceeds from sale of bonds or other indebtedness; and (v) taxes levied for specific purposes.

Debt service on the following types of general obligation debt is excluded from the calculation of the constitutional debt limitation:

(i) debt payable primarily from excise taxes levied on motor vehicle fuels, income received from the investment of the permanent common school fund and revenue received from license fees on motor vehicles;

(ii) debt which has been refunded;

(iii) debt issued after approval of both houses of the Legislature and a majority of those voting in a general or special election;

(iv) debt issued to meet temporary deficiencies in the State Treasury (described in "General Obligation Debt Authority" above);

(v) debt issued in the form of bond anticipation notes;

(vi) debt issued to fund or refund debt of the State Building Authority (no longer in existence);

(vii) debt issued to pay "current expenses of state government;"

(viii) debt payable solely from the revenues of particular public improvements (revenue debt of the state), and

(ix) any state guarantee of voter-approved general obligation debt of school districts in the state.

Current General Obligation Debt Capacity. By applying the constitutional limitation on general obligation debt, the state's estimated general obligation debt capacity (excluding Committee-authorized short-term debt described above) is calculated as follows (as of July 28, 2009):

	Constitutional (9 Percent)*
Estimated arithmetic mean of general state revenues for fiscal years ending June 30, 2007, 2008, and 2009 (1)	$ 12,503,698,536
Debt service limitation (9% of above) (maximum annual debt service on general obligation debt to be outstanding may not exceed this sum)	$ 1,125,332,868
Maximum annual debt service on outstanding general obligation debt (7/28/2009)	$ 922,783,483
Uncommitted portion of debt service limitation (7/28/2009)	$ 202,549,386
Remaining state general obligation principal debt capacity after sale of current and projected issues (assuming a 25-year amortization and an interest rate of 6.00% on future issues) (2)	$ 2,589,260,937

(1) The arithmetic means of general state revenues for recent previous three-year fiscal periods are shown below. Source: "Certification of the Debt Limitation of the State of Washington" for fiscal years 1999 through 2008.

Fiscal Years Ending	Constitutional
June 30 1996, 1997, and 1998	$ 7,559,859,280
June 30 1997, 1998, and 1999	$ 7,918,308,401
June 30 1998, 1999, and 2000	$ 8,305,755,187
June 30 1999, 2000, and 2001	$ 8,655,884,795
June 30 2000, 2001, and 2002	$ 8,822,063,105
June 30 2001, 2002, and 2003	$ 8,879,131,084
June 30 2002, 2003, and 2004	$ 8,961,757,450
June 30 2003, 2004, and 2005	$ 9,323,397,971
June 30 2004, 2005, and 2006	$ 10,314,780,406
June 30 2005, 2006, and 2007	$ 11,526,125,727
June 30 2006, 2007, and 2008	$ 12,605,844,962

(2) The amount of debt that can be issued under this debt limitation calculation is subject to numerous factors, including state revenues, debt structure and interest rates, and may vary over time.

* Preliminary, subject to change.

Use of Short-Term General Obligation Debt Authority (Certificates of Indebtedness and Bond Anticipation Notes). Chapter 39.42 RCW and the respective bond statutes of the state delegate to the Committee the authority to issue, in the name of the state, temporary notes in anticipation of the sale of bonds. Pursuant to statutory authority and resolution of the Committee, such notes are general obligations of the state. Principal of and interest on such notes are excluded from the constitutional limitation. The state has no bond anticipation notes currently outstanding.

Article VIII of the State Constitution and chapter 39.42 RCW provide for the issuance of certificates of indebtedness to meet temporary deficiencies in the State Treasury. Such indebtedness must be retired other than by refunding within twelve months of the date of issue. Principal and interest on certificates of indebtedness is excluded from the constitutional limitation. The state has no certificates of indebtedness currently outstanding and does not anticipate any external short-term borrowing during the current biennium.

Motor Vehicle Fuel Tax Obligations

As of July 28, 2009, there will be outstanding $4,643,158,810 motor vehicle fuel tax bonds secured by a pledge of, and first payable from, excise taxes levied against motor vehicle and special fuels. These bonds

are also secured by the full faith, credit and taxing power of the state, but are not subject to the constitutional debt limitation.

Motor Vehicle Fuel Tax Rates. In 1983, the Legislature established a motor vehicle fuel tax at a fixed rate of $0.180 per gallon. The following table provides the per-gallon tax since April 1, 1990.

Date Changed	Increase ($)	Per-Gallon Tax ($)
4/1/1990	0.040	0.220
4/1/1991	0.010	0.230
7/1/2003	0.050	0.280
7/1/2005	0.030	0.310
7/1/2006	0.030	0.340
7/1/2007	0.020	0.360
7/1/2008	0.015	0.375

All proceeds of the motor vehicle fuel tax are required by the state constitution to be placed in a special fund within the state treasury and used exclusively for highway purposes, including the payment of state obligations for which the motor vehicle fuel tax has been legally pledged.

Certain of the motor vehicle fuel taxes are required by state statute to be distributed to local governments, and certain of the motor vehicle fuel taxes distributed to the state are restricted for expenditure on specified projects.

Revenue Available for Debt Service. The following table presents the state's motor vehicle fuel excise tax collections and the allocations of excise tax pledged for bond principal and interest payments.

Fiscal Year	Revenue Pledge	County-City Allocation (1)	State Allocation (2)
1999	$ 712,559,355	$ 95,059,580	$ 356,426,320
2000	721,684,773	96,276,797	365,130,833
2001	723,945,995	96,578,457	366,272,623
2002	720,305,001	96,092,728	364,429,773
2003	732,805,981	97,760,429	370,749,618
2004	888,237,589	99,866,758	512,808,590
2005	911,683,662	99,265,533	538,209,753
2006	1,002,731,346	100,413,860	611,459,003
2007	1,107,091,064	100,960,199	698,188,782
2008	1,168,113,704	99,972,410	758,534,609
2009 Est. (3)	1,164,849,338	95,425,350	773,339,473
2010 Est. (3)	1,228,173,273	99,959,444	818,566,277

(1) Allocation of excise tax revenues first used for payment of debt service for county-city urban program.

(2) Allocation of excise tax revenues first used for payment of debt service for ferry vessels, State Route 90 and the state highway bonds.

(3) Department of Transportation forecast (June 2009).

Revenue Pledge and Distribution Percentages. Each legislative act authorizing the issuance and sale of motor vehicle fuel tax bonds provides that the principal of and interest on such bonds are secured by a pledge of the excise taxes levied on motor vehicle and special fuels. That pledge constitutes a charge

against the revenues from such motor vehicle and special fuels excise taxes equal to the charge of any other general obligation bonds of the state that have been and may hereafter be authorized that also pledge motor vehicle and special fuels excise taxes for their payment. By statutory provision the Legislature has covenanted to continue to levy that excise tax in amounts sufficient to pay, when due, the principal and interest on all of those bonds issued under the respective legislative authorizations. All motor vehicle fuel tax general obligation bonds of the state are further secured by a pledge of the full faith, credit and taxing power of the state. The act authorizing the issuance of refunding bonds requires, as to bonds to be refunded that are secured by motor vehicle fuel taxes, that the refunding bonds be secured by the same taxes in addition to the pledge of the state's full faith and credit and taxing power.

The Legislature has established a statutory scheme for the distribution and expenditure for various purposes of specified percentages of motor vehicle and special fuels excise taxes received in the motor vehicle fund. However, the Legislature has provided that nothing in those provisions may be construed to violate the terms and conditions of any highway construction bond issues authorized by statute and whose payment is by such statute pledged to be paid from any excise taxes on motor vehicle and special fuels. With the pledge of the aggregate of motor vehicle and special fuels excise taxes for payment of the principal of and interest on all motor vehicle fuel tax bonds currently authorized, that statutory scheme can be characterized as a mandate as to which portion of such excise taxes should first be used to transfer funds to the Highway and Ferry Bond Retirement Funds.

Appropriation Process

The Legislature is obligated to appropriate money for state debt service requirements. Appropriations providing for the payment of bond principal and interest requirements on each series of bonds normally are included in the omnibus appropriation act or occasionally in another appropriation act of each biennial session. In addition, it has been the practice to provide in each omnibus appropriation act an appropriation of such additional money as may be required to satisfy bond covenants and laws for reserves, surplus funds and other "set-asides."

Generally, each bond statute provides that on or before June 30 of each year the Committee shall certify to the State Treasurer the amount required for payment of bond principal and interest for the ensuing fiscal year. For bonds authorized before the First Extraordinary Session of the 1977 Legislature on July 1 (in some instances on June 30), the State Treasurer was required to transfer those funds from any state general revenues, component or dedicated revenues, depending on the revenue pledge, to the specified bond fund. For bonds authorized during the 1977 First Extraordinary Legislative Session and for all subsequent authorizations made prior to the 1989 Legislative Session, the State Treasurer must transfer the funds necessary to pay debt service to the respective bond redemption funds not less than 30 days prior to the principal or interest payment date. For bonds authorized during and since the 1989 Legislative Session, the State Treasurer must transfer the funds necessary to pay debt service to the respective bond redemption funds on the principal or interest payment date.

The statutes(s) authorizing the bonds and other general obligations of the state require the Committee to certify annually the amount needed to provide for payment of debt service and require the State Treasurer to deposit "general state revenues" in such amount into the General Obligation Bond Retirement Fund from time to time. The term "general state revenues" is defined in Article VIII in the State Constitution. Not all money deposited in the General Fund-State constitutes general state revenues.

Some general obligation bond statutes provide that the General Fund-State will be reimbursed from discrete revenues which are not considered general state revenues. For example, tuition fees charged by institutions of higher education must reimburse the General Fund-State for payment of debt service for a number of higher education construction bonds. Other similar reimbursement requirements apply to hospital patient fees (for University of Washington Hospital Construction Bonds) and lease-rental proceeds (for Washington State University Research Center Bonds). All of these required reimbursements have been made to date.

In addition, special hotel-motel tax proceeds collected in King County are pledged to reimburse the General Fund-State debt service payments for the 1983 State Convention and Trade Center Bonds.

Under statutes enacted before 1993 authorizing motor vehicle fuel tax bonds, at least one year prior to the date any interest is due and payable on those bonds or prior to the maturity date of any bonds, the Committee estimates, subject to the provisions of the pledge of revenue, the percentage of the monthly receipts of the motor vehicle fund resulting from collection of excise taxes on motor vehicle and special fuels that will be necessary to meet interest or bond payments when due. Each month as such funds are paid into the Motor Vehicle Fund, the State Treasurer must transfer such percentage of the monthly receipts from excise taxes on motor vehicle and special fuels in the Motor Vehicle Fund to the Highway Bond Retirement Fund and the Ferry Bond Retirement Fund, the latter of which is to be used for payment of the principal of and interest on the state ferry bonds when due. If in any month it appears that the estimated percentage of money so transferred is insufficient to meet the requirements for interest and bond retirement, the State Treasurer must notify the Committee, and the Committee must adjust its estimates so that all requirements for interest and principal of all bonds issued will be fully met at all times. Later-enacted statutes authorizing motor vehicle fuel tax bonds require that such transfers from the Motor Vehicle Fund to the Highway Bond Retirement Fund be made in accordance with the bond proceedings.

The state retains and expects to continue to retain a minimum surplus of funds in the Highway Bond Retirement Fund pending the development of clear estimates of the consequences of energy conservation measures and more definite Department of Transportation revenue projections.

With respect to state ferry bonds, concurrent with the distribution of motor vehicle and special fuel tax revenue to the Ferry Bond Retirement Fund, the State Treasurer must transfer a like amount of funds from the Puget Sound Capital Construction Account to the Motor Vehicle Fund.

State Bonds Outstanding

The following table summarizes as of July 28, 2009, the state's general obligation bonds and general obligation bonds secured by motor vehicle fuel tax revenue.

General Obligation Bonds.....	$ 10,026,784,833
Motor Vehicle Fuel Tax General Obligation.....	4,643,158,810
	$ 14,669,943,643

An additional $3,492,933,029 of general obligation bonds, $6,474,028,366 of motor vehicle fuel tax general obligation bonds, and $1,950,000,000 of toll revenue-backed bonds will be authorized but unissued as of July 28, 2009.

The maximum annual debt service on all outstanding general obligation bonds of $965,261,659 was 15.46 percent of general state revenues of $14.919 billion for the fiscal year ending June 30, 2008. Coverage of the projected annual debt service on all outstanding motor vehicle fuel tax general obligation bonds is 3.17 times based upon estimated motor vehicle fuel tax revenues of $1.220 billion for the fiscal year ending June 30, 2010.

Schedules

Schedules Nos. 1 through 3 show debt service on outstanding and proposed general obligation bonds and motor vehicle fuel tax bonds and analyses of the various types of revenues pledged to secure these bonds.

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SCHEDULE NO. 1

TOTAL BONDS OUTSTANDING AND JULY 28, 2009, BOND OFFERING

Fiscal Year Ending June 30th	Outstanding 7/28/2009 (1) Principal	Outstanding 7/28/2009 (1) Interest (4)	July 28, 2009, Bond Offering (2) Principal	July 28, 2009, Bond Offering (2) Interest	Total (3)
2010	$ 437,572,538	$ 394,887,251	$ -	$ 18,536,896	$ 850,996,686
2011	598,248,541	657,752,225	17,180,000	36,309,021	1,309,489,787
2012	594,098,890	634,210,406	17,685,000	35,853,690	1,281,847,986
2013	621,463,288	603,677,120	18,260,000	35,232,738	1,278,633,145
2014	651,671,540	572,855,027	18,905,000	34,533,983	1,277,965,549
2015	681,659,557	552,010,783	19,610,000	33,750,684	1,287,031,023
2016	704,409,481	536,462,366	20,415,000	32,916,738	1,294,203,585
2017	711,529,784	527,391,459	21,315,000	32,038,605	1,292,274,849
2018	697,908,144	493,742,223	22,185,000	31,032,625	1,244,867,992
2019	687,538,200	465,803,004	23,330,000	29,894,750	1,206,565,953
2020	678,166,495	440,384,840	24,525,000	28,698,375	1,171,774,710
2021	641,960,193	382,834,780	25,785,000	27,440,625	1,078,020,598
2022	634,867,106	333,602,051	27,105,000	26,118,375	1,021,692,533
2023	625,997,167	305,854,021	28,490,000	24,728,500	985,069,689
2024	623,779,322	280,109,466	29,955,000	23,267,375	957,111,164
2025	602,139,917	252,780,315	31,490,000	21,731,250	908,141,483
2026	587,780,654	225,194,879	33,105,000	20,116,375	866,196,908
2027	558,623,610	198,273,498	34,805,000	18,418,625	810,120,733
2028	517,576,468	174,680,672	36,580,000	16,634,000	745,471,140
2029	502,591,913	152,336,047	38,460,000	14,758,000	708,145,960
2030	458,515,835	129,605,725	40,435,000	12,785,625	641,342,185
2031	383,910,000	49,021,950	42,505,000	10,712,125	486,149,075
2032	333,455,000	30,661,625	44,690,000	8,532,250	417,338,875
2033	254,155,000	15,038,913	46,985,000	6,240,375	322,419,288
2034	115,210,000	4,369,250	49,385,000	3,831,125	172,795,375
2035	-	-	51,930,000	1,298,250	53,228,250
	$ 13,904,828,643	$ 8,413,539,896	$ 765,115,000	$ 585,410,979	$ 23,668,894,518

Note: Totals may not add due to rounding.

	Principal	Interest
(1) **Outstanding Bonds by Revenue Pledge**		
(a) General State Revenues	$ 9,663,079,833	$ 5,471,507,716
(b) Motor Vehicle Fuel Tax	4,241,748,810	2,942,032,181
Total Bonds Outstanding (after defeasance of the refunded bonds)	$ 13,904,828,643	$ 8,413,539,896
(2) **July 28, 2009, Bond Offering**		
(a) Series 2010A, dated 7/28/2009	$ 298,800,000	$ 266,475,750
(b) Series 2010B, dated 7/28/2009	401,410,000	311,009,582
(c) Series 2010T, dated 7/28/2009	64,905,000	7,925,646
Total July 28, 2009, Offering	$ 765,115,000	$ 585,410,979
(3) **Total Bonds Outstanding Following July 28, 2009, Offering**	$ 14,669,943,643	$ 8,998,950,875

(4) Interest payments are only estimates and are subject to change from time to time as market conditions change.

SCHEDULE NO. 2

SUMMARY - DEBT STRUCTURE BY REVENUE PLEDGE

General Obligation [1]

	6/30/2005	6/30/2006	6/30/2007	6/30/2008	6/30/2009	7/28/2009 [2]
Outstanding						
General State Revenues and Components	$ 7,575,311,302	$ 7,702,642,072	$ 8,304,968,946	$ 9,003,114,410	$ 9,831,964,833	$ 10,026,784,833
Motor Vehicle Fuel Tax Revenue	2,404,758,801	2,881,445,657	3,368,311,634	4,004,259,674	4,285,988,810	4,643,158,810
Toll Revenue	- - - - - -	- - - - - -	- - - - - -	- - - - - -	- - - - - -	- - - - - -
Total - Outstanding	$ 9,980,070,103	$ 10,584,087,730	$ 11,673,280,580	$ 13,007,374,085	$ 14,117,953,643	$ 14,669,943,643
Annual Debt Service Requirements						
Fiscal Year	$ 896,463,314	$ 939,827,748	$ 1,013,402,558	$ 1,104,194,376	$ 1,226,777,668	$ 1,314,189,017
Authorized -- Unissued						
General State Revenues	$ 3,165,528,029	$ 2,909,033,029	$ 3,858,263,029	$ 2,879,113,029	$ 1,737,638,029	$ 3,492,933,029
Motor Vehicle Fuel Tax Revenue	3,087,256,199	7,540,254,343	6,945,663,366	7,303,663,366	6,875,438,366	6,474,028,366
Toll Revenue	- - - - - -	- - - - - -	- - - - - -	- - - - - -	- - - - - -	1,950,000,000
Total - Unissued	$ 6,252,784,228	$ 10,449,287,372	$ 10,803,926,395	$ 10,182,776,395	$ 8,613,076,395	$ 11,916,961,395
Issued (New Money and Refunding)						
Fiscal Year	$ 1,523,297,666	$ 1,558,261,856	$ 2,452,060,976	$ 1,891,150,000	$ 1,702,700,000	$ 1,151,495,000

(1) No limited obligation debt is outstanding.
(2) Includes current Bond offering dated July 28, 2009.

Note: Totals may not add due to rounding.

SCHEDULE NO. 3

TOTAL DEBT SERVICE REQUIREMENTS [1]
by Pledge of Revenues

Fiscal Year Ending June 30th	General State Revenues (or Components)	Motor Vehicle Fuel Tax Revenues	Total Principal	Total Interest	Total Debt Service Requirements
2010	$965,261,659	$348,927,358	$617,172,538	$697,016,479	$1,314,189,017
2011	947,483,895	362,005,892	615,428,541	694,061,247	1,309,489,787
2012	923,831,334	358,016,652	611,783,890	670,064,096	1,281,847,986
2013	918,411,756	360,221,390	639,723,288	638,909,857	1,278,633,145
2014	909,094,137	368,871,412	670,576,540	607,389,009	1,277,965,549
2015	919,511,096	367,519,928	701,269,557	585,761,466	1,287,031,023
2016	918,241,998	375,961,587	724,824,481	569,379,104	1,294,203,585
2017	907,378,429	384,896,420	732,844,784	559,430,064	1,292,274,849
2018	863,161,000	381,706,992	720,093,144	524,774,848	1,244,867,992
2019	822,843,866	383,722,088	710,868,200	495,697,754	1,206,565,953
2020	789,698,210	382,076,500	702,691,495	469,083,215	1,171,774,710
2021	707,314,600	370,705,998	667,745,193	410,275,405	1,078,020,598
2022	651,385,550	370,306,983	661,972,106	359,720,426	1,021,692,533
2023	626,308,288	358,761,401	654,487,167	330,582,521	985,069,689
2024	600,348,488	356,762,676	653,734,322	303,376,841	957,111,164
2025	552,467,075	355,674,408	633,629,917	274,511,565	908,141,483
2026	512,876,150	353,320,758	620,885,654	245,311,254	866,196,908
2027	470,484,788	339,635,945	593,428,610	216,692,123	810,120,733
2028	428,128,075	317,343,065	554,156,468	191,314,672	745,471,140
2029	401,944,675	306,201,285	541,051,913	167,094,047	708,145,960
2030	353,457,875	287,884,310	498,950,835	142,391,350	641,342,185
2031	302,826,600	183,322,475	426,415,000	59,734,075	486,149,075
2032	265,865,675	151,473,200	378,145,000	39,193,875	417,338,875
2033	211,519,288	110,900,000	301,140,000	21,279,288	322,419,288
2034	114,671,875	58,123,500	164,595,000	8,200,375	172,795,375
Total	$16,109,690,379	$8,022,396,471	$14,849,543,643	$9,282,543,207	$24,132,086,849

(1) Includes current Bond offering dated July 28, 2009.

Note: Totals may not add due to rounding.

SELECTED DEBT RATIOS

Debt Ratios

Year		State Debt Per Capita	State Debt/ Personal Income (Percentage)	Total Debt Service/ Personal Income (Percentage)	State Debt/ Market Value Taxable Property (Percentage)
2005		$ 1,636.63	4.52%	0.41%	1.64%
2006		1,706.27	4.42%	0.41%	1.54%
2007		1,907.66	4.66%	0.42%	1.47%
2008	*	2,053.11	4.89%	0.44%	1.39%
2009	*	2,193.37	5.25%	0.47%	1.51%

Factors for the Debt Ratios

Year		Population (1) (000)	Personal Income (2) (000,000)	Debt Service (3) (000)	Market Value Taxable Property (4) (000)	State Debt (5) (000)
2005		6,256.40	$ 226,577	$ 939,828	$ 625,111,698	$ 10,239,381
2006		6,375.60	245,930	1,013,403	707,348,409	10,878,525
2007		6,488.00	265,605	1,104,194	844,113,769	12,376,911
2008	*	6,587.60	276,628	1,226,778	973,042,989	13,525,096
2009	*	6,688.30	279,633	1,314,189	973,042,989	14,669,944

(1) Population -- Office of the Forecast Council, "Washington Economic and Revenue Forecast March 2009," Table A5.1.

(2) Personal Income -- Office of the Forecast Council, "Washington Economic and Revenue Forecast March 2009," Table A3.3.

(3) Debt Service -- Reported by the State Finance Committee for the ensuing fiscal year.

(4) True and fair market value (100%) as reported by the Department of Revenue for state taxes due and payable in calendar years 2004 through 2007 -- Department of Revenue, "Property Tax Statistics 2008," Table 25. Under current law, business inventories are exempt from any property tax.

(5) State Debt -- Reported by the Office of State Treasurer for December 31 each year. Outstanding as of July 28, 2009.

* Estimate.

State Bonded Debt by Source of Payments

General Obligation		
Payable from General State Revenues	$9,047,271,574 (1)	
First Payable from Other Sources	5,622,672,069 (2)	
Limited Obligation	0	$14,669,943,643

	General Obligation Debt		
	Payable From General State Revenues	First Payable from Other Sources	Total State Bonded Debt
Debt to True Market Value.....	0.93%	0.58%	1.51%
Per Capita Debt.....	$1,352.70	$840.67	$2,193.37

(1) Outstanding bonds as of July 28, 2009.

(2) Certain state general obligation bonds are payable first from sources other than general state revenues ($979,513,259 from tuition fees, patient fees, admissions taxes, parking taxes, certain King County sales and use taxes, or hotel and motel taxes) and are additionally full faith and credit obligations of the state.

OTHER OBLIGATIONS

Certificates of Participation/Financing Contracts

The 1989 Legislature authorized financing contracts for personal and real property. The state currently has in place a program that provides for the financing of equipment and real estate projects by competitive sale of certificates of participation in master financing contracts. The state's obligations are subject to appropriation.

The Committee is charged with oversight of financing contracts entered into by the state and related policy guidelines (RCW 39.94.040). At the start of each biennium, the Office of the State Treasurer, as staff to the Committee, reports on prior usage of financing contracts and presents a proposed financing plan for the upcoming biennium. In addition, the Committee is required from time to time to establish an aggregate principal amount payable for financing contracts entered into by the state. At its June 9, 2009, meeting, the Committee (i) approved a proposed finance plan totaling $180,053,000 plus financing expenses and required reserves for Financing Contracts that may be entered into by the state during the 2009-11 Biennium, and a threshold of $30,000,000 for financings requiring individual approval by the Committee; and (ii) established for the 2009-11 Biennium a maximum aggregate principal amount payable of $1,460,000,000 under financing contracts. In addition, the Committee approved the issuance of any refinancing contract that meets the Committee's Debt Issuance Policy's savings threshold.

The following table displays outstanding state certificates of participation/financing contracts as of July 1, 2009.

CERTIFICATES OF PARTICIPATION/FINANCING CONTRACTS

	Outstanding	2009-2011 Debt Service Requirement	Final Maturity
DOE Refunding 2001	$ 16,370,000	$ 12,008,638	2012
Washington State Patrol, 1997 - Port Angeles Office	165,000	119,490	2012
UW, McCarty-Lander, 2001C	2,160,000	1,187,958	2013
WA Liquor Control Board Warehouse Expansion 2006I	12,350,000	5,656,850	2014
GA, Kelso Building and Land, 2000	2,370,000	927,411	2015
Equipment Series, Competitive; since 1997	13,056,944	9,627,697	2015
Bellevue, Spokane Falls, Shoreline and Edmonds CCs, 2001B	1,200,000	550,271	2015
Veterans Affairs, 2001	2,255,000	745,283	2016
Master Installment Program -- RE, 1993	1,250,000	866,820	2016
LOCAL Real Property B - Taxable	150,000	62,475	2016
DOE Refunding, 2003B	25,715,000	2,280,975	2016
Dept. of Personnel Human Resources Systems, 2004D	24,705,000	8,229,544	2016
LOCAL Real Property	2,744,391	1,302,430	2017
Tacoma, Peninsula, Green River and Whatcom CCs, 2001A	3,005,000	925,940	2017
DOL, WSP, Vancouver and Union Gap Project, Series 1998	4,395,000	1,111,956	2018
Washington State Convention and Trade Center	136,715,000	41,096,913	2018
Edmonds CC - Music Building, 2000C	2,620,000	722,983	2018
SOS, Records Center EWU, 2002	8,350,000	2,246,930	2018
WSU - 2006A Refunding of 1996A Consolidated Info Cntr	5,210,000	1,472,223	2018
GA, Yakima Building Project, 1999B	5,525,000	1,446,350	2019
Whatcom, Columbia Basin and Yakima CC, 2000A	3,230,000	945,778	2020
Columbia Basin CC, 2004F	6,640,000	1,489,623	2020
GA, Tacoma Co-location Project, 1996	10,070,000	2,742,810	2020
South Puget Sound Community College, 1999	3,065,000	817,686	2020
Bates Technical College-Communications Center, 2000B	2,690,000	643,319	2020
Quarterly Pooled Financings; since 2004	143,570,070	84,159,476	2020
DOC, 2001 Workrelease Facility- Spokane Brownstone	2,140,000	471,903	2021
UW, 1999, Sandpoint and Primate Center	6,105,000	2,238,208	2021
UW, Sandpoint Phase 2, 2001A	1,135,000	251,649	2021
UW, Husky Den, 2001B	4,505,000	952,560	2022
UW, Sandpoint Phase 2B, 2001D	2,645,000	554,163	2022
UW, Sandpoint Bldg 29, 2002A	3,605,000	744,528	2022
GA, Olympia Capitol Court and Federal Building, 1999A	7,595,000	1,483,350	2022
GA, Isabella Bush Record Center, 2002	3,015,000	581,035	2023
UW, Sandpoint Bldg 5 Phase IIC, 2002E	2,105,000	406,295	2023
Bellevue Community College, RE-2003C	12,320,000	2,301,905	2023
Highline Community College, RE-2003F	9,805,000	1,826,909	2023
CWU, Edmonds, 2002D	4,010,000	774,355	2023
Dept. of Ecology, COP 2009C Series	7,410,000	807,216	2024
Big Bend, Clark, Spokane, SPSC, Walla Walla CCs, 2004A	9,720,000	2,223,535	2024
UW, Sandpoint Bldgs 5 and 29, RE-2003E	3,500,000	618,060	2024
DOT Acquisitions, CCs and Adams Cnty COP Series 2005D	12,845,000	3,025,895	2025
DOC, 2005B, Tumwater and Airway Heights	7,965,000	1,370,968	2025
GA Cherberg Bldg Rehabilitation, COP Series 2006D	7,190,000	1,208,438	2026
St Board for Cmmity and Tech Colleges, COP Series 2006C	8,270,000	1,840,550	2026
WA CTC (Shoreline) COP Series 2006G	13,695,000	2,273,550	2026
CTC and Pend Oreille FD 3 COP Seriece 2006F	14,365,000	2,425,548	2026
WA COP-CTC(Edmonds, Pierce) and Parks (Camas), Series 2007C	15,775,000	2,516,430	2027
WA COP WSU, CTC, GA, Franklin Cnty, 2007A	14,725,000	2,521,755	2027
COP-CTC (Tacoma and Columbia), Mason County and Port Royal Slope	17,620,000	2,867,405	2028
Pooled State and Local Real Estate, 2008B	27,620,000	4,948,575	2028
WA COP RE Pool, Series 2009D	33,215,000	3,438,379	2029
Pooled State and Local Real Estate, 2009A	51,170,000	8,222,850	2029
Total	$ 743,646,405	$ 236,283,837	

In 1998, the Legislature authorized the state to enter into financing contracts on behalf of certain local government agencies for the acquisition of real and personal property. Pursuant to that authorization, the State Treasurer established the state's Local Capital Asset Lending Program under which certain local government agencies with taxing power may enter into financing contracts with the state for the acquisition of real and personal property. The obligations of local agencies under financing contracts with the state are general obligations to which the local agencies pledge their full faith and credit to make required payments. Local agency payments received by the state are used to make payments on master financing contracts of the state. The state incurs a contingent obligation to make payments on behalf of a local agency in the event a local agency fails to make its required payment. This contingent payment obligation of the state is subject to appropriation by the Legislature and executive order reduction by the Governor.

Other Contingencies

The following table displays other contingencies as of July 14, 2009.

	Outstanding	2009-2011 Debt Service Requirement	Final Maturity
Tumwater Office Properties Lease Revenue Bonds, 2004	$ 54,875,000	$ 7,315,800	2028

The state, acting through its Department of Information Services, has entered into a financing lease with FYI Properties for the acquisition of a state data center and office building. The financing lease is contingent upon FYI Properties issuing bonds for the project in an amount not-to-exceed $305,810,000 no later than August 31, 2009.

School Bond Guarantee Program

During the 1999 Legislative Session, the Legislature passed Senate Joint Resolution 8206, effectively creating a Washington State school district credit enhancement program. The program's purpose is to provide savings to state taxpayers by pledging the full faith and credit of the state to the payment of voter-approved school district general obligation bonds. Since the program authorization required a constitutional amendment, the proposed law was submitted to a vote of the electorate, who passed the constitutional amendment in November 1999 by a vote of 60 percent to 40 percent. The program is authorized in chapter 39.98 RCW.

Each school district is responsible for paying in full the principal of and interest on its bonds guaranteed by the state under the guarantee program. If sufficient money to make any scheduled debt service payment on guaranteed bonds of a school district has not been transferred to the paying agent in a timely manner, the State Treasurer will transfer sufficient money to the paying agent for such payment. The State Treasurer will recover from the District any funds paid by the state on behalf of a school district under the guarantee program in a manner consistent with chapter 39.98 RCW.

As of June 15, 2009, the aggregate total principal amount outstanding on 464 voter-approved bonds guaranteed by the program is $7.705 billion. The bonds were issued by 196 school districts.

Workers' Compensation Program

The Workers' Compensation Program insures approximately 70 percent of the work force in the state, excluding self-insured employers and their employees, against work-related accidents and medical claims. The program has three main components: Accident, Medical Aid and Supplemental Pension. Accident Fund premiums are paid by employers while premiums for the Medical Aid and Supplemental Pension Funds are shared equally by employers and employees. A separate pension fund sufficient to pay future pension obligations is established in the Accident Fund and not through separate premium assessments. The Supplemental Pension component covers both state fund and self-insured employees. The Accident, Medical Aid and Pension components are designed to be self-sustaining; assets are accumulated to fund future benefits.

The Supplemental Pension Fund was adopted by the Legislature in 1973 to provide inflation adjustment payments for time lost for the temporarily disabled and pension benefits for the permanently disabled. This plan operates on a current, "pay-as-you-go" basis. In accordance with GASB, the Supplemental Cost of Living Benefit is characterized as an obligation of the Workers' Compensation Fund, a special enterprise fund, and employer and employee future contributions are not shown as an offsetting asset. The potential future liability of the fund to pay all claims for Supplemental Cost of Living Benefits for all employees is estimated to be $4.5 billion; however, the state's obligation to its own employees is substantially lower, and the state anticipates contributions from the private sector will be sufficient to satisfy all liabilities for nonpublic employees.

State Unemployment Compensation Fund

Currently, unemployed workers are entitled to up to 26 weeks of regular unemployment insurance benefits, with a maximum state liability of $14,066 per unemployed worker. The maximum and minimum weekly benefit amounts payable are defined as percentages of the state's average weekly wage in covered employment. The maximum is now $541; the minimum is $129.

The fund's experience rating system sets employer tax rates based on the reserve fund level and the amount of benefits charged to employers, with a maximum tax rate of 5.4 percent to conform to federal requirements.

UNEMPLOYMENT COMPENSATION FUND
(Dollars in Millions)

	Beginning Balance	Receipts	Disbursements	June 30 Balance[1] Dollars	June 30 Balance[1] Percent[2]
FY 1993	$ 1,710	$ 684	$ 646	$ 1,748	4.2
FY 1994	1,748	688	845	1,591	3.7
FY 1995	1,591	674	813	1,452	3.2
FY 1996	1,452	682	815	1,319	2.7
FY 1997	1,319	765	728	1,356	2.6
FY 1998	1,356	852	691	1,517	2.6
FY 1999	1,517	921	816	1,622	2.4
FY 2000	1,622	1,109	799	1,932	2.6
FY 2001	1,932	1,029	1,051	1,910	2.4
FY 2002	1,910	1,102	1,572	1,440	1.8
FY 2003	1,440	1,159	1,499	1,100	1.4
FY 2004	1,100	1,421	1,278	1,243	1.6
FY 2005	1,243	1,562	702	2,103	2.6
FY 2006	2,103	1,568	705	2,966	3.2
FY 2007	2,966	1,442	711	3,697	3.7
FY 2008	3,697	1,348	928	4,117	3.9

(1) As of September 30 beginning in FY 2000.
(2) As a percent of total wages for the preceding calendar year.

RETIREMENT SYSTEMS

Overview

Washington State public pensions include nine systems:

(i) Public Employees' Retirement System ("PERS"),

(ii) Teachers' Retirement System ("TRS"),

(iii) School Employees' Retirement System ("SERS"),

(iv) Public Safety Employees' Retirement System ("PSERS"),

(v) Law Enforcement Officers' and Fire Fighters' Retirement System ("LEOFF"),

(vi) Washington State Patrol Retirement System ("WSPRS"),

(vii) Judicial Retirement System ("JRS"),

(viii) Judges' Retirement Fund ("Judges"), and

(ix) Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Act ("VFFRPF").

Five of the state systems (PERS, TRS, SERS, LEOFF, and WSPRS) include more than one plan. Contribution rates differ for the plans within each of these systems. Members entering before October 1, 1977, are covered under Plan 1; members entering on and after October 1, 1977, are covered under Plan 2 or Plan 3. Plan 3 members do not make contributions to the Defined Benefit portion of the plan. SERS Plan 2/3 is composed of school employees hired on or after October 1, 1977, who would have been included in PERS Plan 2 before the creation of SERS in the year 2000. School employees hired before October 1, 1977, remain in PERS Plan 1. A portion of the employer contribution for Plan 2/3 employees of PERS, TRS, and SERS is contributed to the respective Plan 1 for purposes of amortizing the Plan 1 Unfunded Actuarial Accrued Liability ("UAAL," defined below under "Actuarial Assumptions").

PSERS has just one plan. PSERS employers also contribute to the PERS 1 UAAL.

WSPRS consists of two plans. Plan 1 closed to new membership on December 31, 2002, but all members pay the same contribution rates to help fund the system.

JRS and Judges each contain one plan, and each is funded on a pay-as-you-go basis. VFFRPF also has just one pension plan.

With the exception of the Plans 3 in PERS, TRS, and SERS, the retirement plans are defined benefit plans, providing monthly cash payments in accordance with a specific schedule. The benefit amount may be determined by a combination of service and/or salary. The Plans 3 in PERS, TRS, and SERS are combination defined benefit/defined contribution plans. The defined benefit portions of these plans are fully funded by the employers.

State Contribution Levels

The State of Washington contributes to these systems to varying degrees. The following table contains current contribution ratios, or "splits," between the state and local government employers. The state's share is further split by fund: General Fund—state (GF-S), and all other funds (Non-GF-S). These splits are used internally by the Office of the State Actuary to model approximate allocation of costs for employers by fund or type of employer. Use of the numbers provided in this table for any other purpose would be inappropriate.

CONTRIBUTION SPLITS

System	GF-State(%)	Non-GF-State(%)	Local Government(%)
PERS	19.9	28.4	51.7
TRS	66.3	0.0	33.7
SERS	44.6	0.0	55.4
PSERS	71.0	7.6	21.4
LEOFF	100.0	0.0	0.0
WSPRS	8.0	92.0	0.0

The following table shows the ***total state contribution*** by fiscal year for all systems combined, and is followed by a table that shows state contribution levels by year for each respective system. Additional detail on the individual systems is provided below under "Individual Retirement Systems."

STATE CONTRIBUTIONS
(ALL SYSTEMS COMBINED)
(Dollars in thousands)

Fiscal Year Ending June 30	Contributions
2001	$ 406,000
2002	198,800
2003	118,300
2004	127,600
2005	133,200
2006	255,300
2007	447,300
2008	624,700

STATE CONTRIBUTIONS
(INDIVIDUAL SYSTEMS)
(Dollars in thousands)

Fiscal Year	State Contributions								
Ending June 30	PERS	TRS	SERS	PSERS	LEOFF	WSPRS*	JRS	JUDGES	VFFRPF
2001	$152,200	$210,900	$ 10,600	n/a	$ 20,900	$ 0	$ 7,300	$ 800	$ 3,300
2002	61,600	105,800	6,000	n/a	15,600	0	6,200	300	3,300
2003	47,300	38,600	6,200	n/a	16,400	0	6,200	300	3,300
2004	45,900	41,300	9,100	n/a	20,200	0	6,200	500	4,400
2005	48,000	42,600	10,200	n/a	21,300	0	6,200	500	4,400
2006	88,000	90,500	30,400	n/a	31,700	3,100	6,700	300	4,600
2007	178,200	162,600	45,900	$ 2,800	38,600	3,300	9,600	300	6,000
2008	275,100	222,600	52,100	5,900	46,800	6,100	9,700	0	6,400

* When WSPRS is fully funded, the state's contribution rate is zero.

Plan Administration

The Department of Retirement Systems ("DRS") administers all of the above systems, with the exception of VFFRPF, which is administered by the State Board for Volunteer Fire Fighters and Reserve Officers. The Legislature is the legislative body with respect to laws regarding system creation and administration.

The Office of the State Actuary ("OSA"), which is overseen by the State Actuary Appointment Committee and the Executive Committee of the Select Committee on Pension Policy, performs all actuarial services for

DRS, including all studies required by law. The tables included hereunder have been reviewed by the State Actuary and are subject to revision in the future.

The Pension Funding Council ("PFC"), which was created under RCW 41.45.100, has several functions with respect to the activities of OSA. The PFC consists of the directors of the Office of Financial Management and DRS, along with the chairs and ranking minority members of the House Appropriations and Senate Ways and Means committees. The PFC reviews and adopts changes to the long-term economic assumptions used by OSA in its actuarial valuations. The PFC reviews and adopts changes to demographic assumptions developed by OSA, also used in the valuations. Additionally, the PFC adopts contribution rates (as defined below) to be charged each biennium. All assumptions and contribution rates adopted by the PFC are subject to revision by the Legislature.

The Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board (the "Board") serves a similar purpose as the PFC, but focuses strictly on LEOFF Plan 2. As with the PFC, all contribution rates adopted by the Board are subject to revision by the Legislature.

Actuarial Assumptions

At least once every six years, the State Actuary is required to perform studies in which the demographic assumptions used in each system are evaluated in light of actual experience. A study of the demographic assumptions was last performed for the 2001-2006 period. As a result of the 2001-2006 experience study, significant changes were made in assumptions. The results shown in this section reflect the assumption changes adopted by the PFC and the LEOFF 2 Board.

As previously mentioned, the PFC and the LEOFF 2 Board review and adopt changes to the long-term economic assumptions used by OSA in its actuarial valuations. The major economic assumptions used, developed and last adopted by the PFC in 2008, are as follows:

(i) Rate of assumed investment return: 8.0 percent per *annum*;

(ii) General salary increases: 4.25 percent per *annum* (4.5 percent in LEOFF 2);

(iii) Rate of Consumer Price Index increase: 3.5 percent (where applicable).

A new law passed during the 2007 Legislative Session (Chapter 280, Laws of 2007) calls for the PFC to review economic assumptions every two years.

The Actuarial Valuation Report provides information on the following:

(i) *Contribution Rates.* These are rates of contribution developed based upon the June 30, 2007, Actuarial Valuation Report ("AVR"), expressed as a percentage of the active members' compensation. The 2007 AVR was published in September 2008. The next contribution rate-setting valuation, with an effective date of June 30, 2009, under current law, will be published in the summer of 2010.

(ii) *Unfunded Actuarial Present Value of Credited Projected Benefits.* This is the amount by which liabilities exceed assets. Liabilities are calculated under the Projected Unit Credit ("PUC") cost method. Benefits are projected to retirement, including future salary increases, but based only on service earned to date.

(iii) *Funding Ratio.* The Funding Ratio is assets divided by liabilities. Liabilities are calculated under the PUC Method.

(iv) *Unfunded Actuarial Accrued Liability (UAAL).* This is a portion of the unfunded actuarial present value of fully projected benefits. The significance of this item is in developing the contribution rates for the Plans 1. Contributions toward the UAAL have been developed as a level percentage of expected future payrolls. The pertinent statute, Chapter 41.45 RCW, requires the existing UAAL in

the Plans 1, as well as future gains or losses, and benefit increases to be fully funded by June 30, 2024.

Funded Status

The following table displays funding measures for PERS, TRS, SERS, LEOFF, and WSPRS. The table shows a standard form funded status, using the PUC method to gauge liabilities. The assets have been measured under the actuarial asset value method. Contribution rates are developed using a different liability measure, the present value of fully projected benefits. ***Assets from one plan may not be used to fund benefits for another plan.***

As shown in the following table, assumptions changed in 1989, 1994, 1997, 2000, 2001, 2005, and 2007. Assumption changes can be either demographic or economic in nature. They may come about as a result of changes adopted by the PFC or the LEOFF 2 Board. Laws passed by the Legislature can also have an impact on assumptions used by the OSA. For example, if a law were passed lowering the normal retirement age for a specific plan or group of plans, retirement rates would need to be changed to reflect the cost of this new legislation.

HISTORICAL FUNDED RATIOS
(Dollars in millions)

	PERS		TRS		SERS	PSERS	LEOFF		WSPRS
	Plan 1	Plan 2/3	Plan 1	Plan 2/3	Plan 2/3	Plan 2	Plan 1	Plan 2	
Credited Projected Liability	$ 13,705	$ 12,418	$ 10,854	$ 4,048	$ 1,691	$ 11	$ 4,323	$ 3,386	$ 679
Valuation Assets	9,715	14,888	8,302	5,277	2,133	14	5,298	4,360	800
Unfunded Liability	$ 3,990	$ (2,470)	$ 2,552	$ (1,229)	$ (443)	$ (2)	$ (975)	$ (974)	$ (121)
Funded Ratio (%)									
2007*	71	120	76	130	126	120	123	129	118
2006*	74	121	80	133	125	99	117	116	114
2005*	74	127	80	134	122	n/a	114	114	113
2004	81	134	88	153	137	n/a	109	117	118
2003	82	142	89	155	138	n/a	112	125	123
2002	92	158	98	182	169	n/a	119	137	135
2001*	97	179	100	197	197	n/a	129	154	147
2000*	98	190	100	196	170	n/a	136	161	152
1999	93	189	93	188	n/a	n/a	125	154	159
1998	86	191	86	185	n/a	n/a	117	160	147
1997*	83	187	82	181	n/a	n/a	108	155	140
1996	73	157	70	144	n/a	n/a	89	130	128
1995	68	150	65	136	n/a	n/a	80	126	119
1994*	67	142	65	130	n/a	n/a	68	124	110
1993	70	142	62	126	n/a	n/a	68	127	110
1992	67	139	59	127	n/a	n/a	65	128	108
1991	67	149	59	131	n/a	n/a	66	154	106
1990	66	154	60	140	n/a	n/a	65	153	105
1989*	65	162	58	144	n/a	n/a	65	158	103
1988	66	165	59	143	n/a	n/a	66	153	102
1987	71	175	58	135	n/a	n/a	69	157	95
1986	63	162	50	125	n/a	n/a	57	142	87

* Assumptions changed.

Note: Totals may not add due to rounding. The funded ratios presented in this table are not based on the liability measure used to develop contribution rates. See the Actuarial Valuation Report for more information.

Individual Retirement Systems

A detailed discussion of each of the state's individual retirement systems is provided below. Defined benefits paid to PERS, TRS, SERS, LEOFF, and WSPRS members are funded through a combination of employee and employer/state contributions and investment earnings. Detailed schedules of contributions

and disbursements, and funding progress are included in Appendix D—Excerpts from the 2007 Audited General Purpose Financial Statements.

Employee contributions to the PERS, TRS, SERS, LEOFF, and WSPRS plans earn accrued interest at a rate determined by the director of DRS. During the last valuation year, the DRS specified rate was 5.5 percent. This 5.5 percent rate is different from the economic rate of return assumption used by OSA in its actuarial valuations. It is the interest rate paid by DRS on member contributions should a member elect to withdraw his or her membership instead of collecting a future retirement benefit.

The state's contribution levels vary from year to year due to changing contribution rates, which are tied to several factors, including benefit structure and investment performance. The state's contributions to each retirement system are provided above under "State Contribution Levels."

PERS Overview. PERS is a cost-sharing multiple-employer retirement system, containing three separate plans for members: Plans 1 and 2 are defined benefit plans, and Plan 3 is a combination defined benefit/defined contribution plan. As of June 30, 2007, the date of the last actuarial valuation, PERS included 184,605 active and terminated-vested members, with 71,244 retirees and survivors receiving benefits.

Between 2001 and 2005, the state's contribution to PERS declined. With the unusually favorable performance of investments in the late 1990s, the funding levels of the pension plans improved, allowing contribution rates to fall. In addition, the Legislature suspended payments on the Plan 1 UAAL from 2003 to 2005 and again from 2005 to 2007. Legislation passed in 2006 provided for UAAL payments to resume on a phased-in schedule beginning in the 2006-2007 fiscal year. By statute, the Plan 1 UAAL must be fully amortized by June 30, 2024.

(i) *PERS 1.* As of June 30, 2007, the date of the last actuarial valuation, PERS 1 had 15,631 active and terminated-vested members, with 54,686 retirees and survivors receiving benefits.

(ii) *PERS 2/3.* As of June 30, 2007, the date of the last actuarial valuation, PERS 2/3 had 168,974 active and terminated-vested members, with 16,558 retirees and survivors receiving benefits.

TRS Overview. TRS is a cost-sharing multiple-employer retirement system consisting of three separate plans for membership purposes. Plans 1 and 2 are defined benefit plans, and Plan 3 is a combination defined benefit/defined contribution plan. As of June 30, 2007, the date of the last actuarial valuation, TRS included 74,367 active and terminated-vested members, with 38,091 survivors and retirees receiving benefits.

Between 2001 and 2005, the state's contribution to TRS declined. With the unusually favorable performance of investments in the late 1990s, the funding levels of the pension plans improved, causing contribution rates to fall. Also, the Legislature suspended payments on the Plan 1 UAAL from 2003 to 2005, and again from 2005 to 2007. Legislation passed in 2006 provided for UAAL payments to resume on a phased-in schedule beginning in the 2006-2007 fiscal year. By statute, the Plan 1 UAAL must be fully amortized by June 30, 2024.

(i) *TRS 1.* As of June 30, 2007, the date of the last actuarial valuation, TRS 1 had 8,367 active and terminated-vested members, with 35,384 retirees and survivors receiving benefits.

(ii) *TRS 2/3.* As of June 30, 2007, the date of the last actuarial valuation, TRS 2/3 had 66,000 active and terminated-vested members, with 2,707 retirees and survivors receiving benefits.

SERS Overview. SERS is a cost-sharing multiple-employer retirement system comprised of two different plans for membership purposes. Plan 2 is a defined benefit plan, and Plan 3 is a combination defined benefit/defined contribution plan. As of June 30, 2007, the date of the last actuarial valuation, SERS

included 58,499 active and terminated-vested members, with 3,141 retirees and survivors receiving benefits. SERS employers also help to amortize the PERS 1 plan UAAL.

PSERS Overview. PSERS was created in 2004 with an effective date of July 1, 2006. PSERS is a multi-employer defined benefit plan. Defined benefits paid to PSERS members are funded through a combination of employee/employer contributions and investment earnings. PSERS employers also help to amortize the PERS 1 plan UAAL. The first PSERS actuarial valuation was performed as of June 30, 2007. At the valuation date, PSERS had 2,755 active members and no terminated-vested members, retirees, or survivors receiving benefits. PSERS employers also help to amortize the PERS 1 plan UAAL.

LEOFF Overview. LEOFF is a cost-sharing multiple-employer retirement system encompassing two separate defined benefit plans. As of June 30, 2007, the date of the last actuarial valuation, LEOFF included 17,245 active and terminated-vested members, with 9,085 retirees and survivors receiving benefits.

Contributions to LEOFF Plan 1 were not made by employees, as the plan is over-funded. LEOFF 1 employers pay only a 0.16 percent administrative expense rate to DRS as long as the plan is over-funded.

(i) *LEOFF 1.* As of June 30, 2007, the date of the last actuarial valuation, LEOFF 1 had 517 active and terminated-vested members, with 8,161 retirees and survivors receiving benefits.

(ii) *LEOFF 2.* As of June 30, 2007, the date of the last actuarial valuation, LEOFF 2 had 16,728 active and terminated-vested members, with 924 retirees and survivors receiving benefits.

WSPRS Overview. WSPRS is a single-employer defined benefit retirement system, comprised of two plans. As of June 30, 2007, the date of the last actuarial valuation, WSPRS included 1,093 active and terminated-vested members, with 821 retirees and survivors receiving benefits

JRS Overview. JRS is an agent multiple-employer retirement system with a single defined benefit plan. Retirement benefits in JRS are financed on a pay-as-you-go basis, through a mixture of investment earnings, employee/employer contributions, and a special funding situation where the state pays any remaining contributions. Detailed schedules of contributions and disbursements, and funding progress are included in Appendix D—Excerpts from the 2007 Audited General Purpose Financial Statements.

Members of JRS include judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts. As of the last valuation date, JRS had 12 active and terminated-vested members, with 130 retirees and survivors receiving benefits.

Judges Overview. The Judges' Retirement Fund is an agent multiple-employer retirement system with a single defined benefit plan. Retirement benefits are financed on a pay-as-you-go basis through a combination of past employee/employer contributions, as well as a special funding situation where the state contributes to the plan. Detailed schedules of contributions and disbursements, and funding progress are included in Appendix D—Excerpts from the 2007 Audited General Purpose Financial Statements.

As of June 30, 2007, the date of the last actuarial valuation, Judges was comprised of 15 retirees and survivors receiving benefits.

VFFRPF. The Volunteer Fire Fighters' Relief and Pension Fund was created as a way to encourage members to stay active longer, and to keep officers participating in training, duty shifts, and responses. Detailed schedules of contributions and disbursements, and funding progress are included in Appendix D—Excerpts from the 2007 Audited General Purpose Financial Statements.

Membership as of June 30, 2007, included 16,706 active and terminated-vested members, with 3,437 retirees and survivors receiving benefits.

Shown below are Contribution rates for the Volunteer Fire Fighters' fund.

CONTRIBUTION RATES FOR VFFRPF

	2004	2005	2006	2007
Per Person Contribution Rates Valuation				
Pension Rate				
Employee	$ 30	$ 30	$ 30	$ 30
Employer	30	30	30	30
State	61	30	29	38
Normal Cost Rate	$ 121	$ 90	$ 89	$ 98
State UAAL (Surplus) Rate	$ (45)	$ 131	$ 24	$ (90)
Pension Rate	$ 76	$ 221	$ 113	$ 8
Relief Rate				
Employer*	$ 10	$ 30	$ 30	$ 30
State	90	89	71	106
Relief Rate	$ 100	$ 119	$ 101	$ 136
Operating Expenses				
Administration and Expenses	$ 22	$ 23	$ 28	$ 31

* The employer fee for the Relief Plan was increased from $10 to $30 effective July 24, 2005.

Other Post-Employment Benefits

PEBB Overview. The Public Employee Benefits Board ("PEBB"), created within the Washington State Health Care Authority ("HCA"), administers medical, dental and life insurance plans for Washington State public employees and retirees. Employers who participate in the PEBB plan include the state, K-12 school districts, and political subdivisions of the state. The OPEB relationship between PEBB employers and their employees and retirees is not formalized in a contract or plan document; rather, the benefits are provided in accordance with a substantive plan.

PEBB Membership. Retirees' access to PEBB depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the PERS, TRS, SERS, WSPRS, Judicial, and Higher Education retirement systems. The following table shows PEBB plan membership.

MEMBERSHIP BY EMPLOYER

Active Members	Subscribers	Eligible	Percent Participating*
State	106,352	113,025	94
K-12	2,429	115,764	2
Political Subdivision	10,929	16,396	67
Total Active Members	119,710	245,185	49
Inactive Members			
State	29,589	29,589	100
K-12	20,770	20,770	100
Political Subdivision	863	863	100
Total Inactive Members	51,222	51,222	100
Total	170,932	296,407	58

* Percentage of eligible members currently participating in PEBB.

Source: Washington State 2008 OPEB Report

2008 OPEB Actuarial Valuation Report—Summary of Benefits and Subsidies. PEBB offers retirees access to medical, prescription drug, life, dental, vision, disability and long-term care insurance. PEBB employers provide monetary assistance or subsidies, only for medical, prescription drug, vision and life insurance. Retirees pay the cost of other benefits.

For medical insurance coverage the HCA has two claim pools: (i) covering employees and non-Medicare eligible retirees, and (ii) covering retirees enrolled in Medicare Parts A and B. Each participating employer pays a portion of the premiums for active employees. For retirees, participating employers provide two different subsidies:

(i) *Explicit Subsidy.* Lowers the monthly premium paid by retired members enrolled in Medicare Parts A and B. The explicit subsidy is determined annually.

(ii) *Implicit Subsidy.* Retired members pay a premium based on a pool that includes claims experience for employees and non-Medicare eligible retirees. The subsidies are valued using the difference between the age-based claims cost and the premium paid by retirees.

Funding of Benefits. In the state, retiree benefits are set each biennium as part of the budget process. These benefits are funded on a pay-as-you-go basis. The table below summarizes the annual cost of retiree insurance for all PEBB employer groups (state, K-12 school district, and political subdivision) between 2002 and 2007.

ANNUAL PEBB PLAN COSTS OF RETIREE BENEFITS
(Dollars in Thousands)

Fiscal Year	Implicit	Explicit
2002	$ 37,055	$ 39,318
2003	41,199	46,860
2004	44,738	55,320
2005	47,021	63,792
2006	49,290	76,343
2007*	51,056	87,001

* Preliminary

GASB 43 and 45. GASB Statement 43, effective June 30, 2007, requires disclosure of information related to the entire plan. GASB Statement 45 requires each employer to calculate its OPEB liability, as well as the annual required contribution ("ARC"). The state will first be subject to the GASB 45 requirements for financial reporting for the fiscal year ending June 30, 2008.

In August 2008, the state issued its *2008 Other Post-Employment Benefits (OPEB) Actuarial Valuation Report.* Since no contract or plan document exists, the state's current cost-sharing policy was used to project the retiree contributions and average retiree claims cost using the same medical inflation trend rate for each. The valuation was prepared using the PUC method, a closed, 30-year amortization as a level percent of payroll method, and an expected long-term yield of 4.50 percent. The table below shows the GASB 45 liabilities as of January 1, 2008.

GASB 45 KEY RESULTS
(Dollars in Thousands)

	State	K-12	Political Subdivisions	Total
Actuarial Accrued Liability(1)	$ 4,014,270	$ 3,541,802	$ 348,538	$ 7,904,610
Annual Required Contribution(2)	331,688	314,534	36,585	682,807
Annual OPEB Cost(3)	334,374	317,031	36,927	688,332
Net OPEB Obligation(4)(5)	493,551	478,942	65,227	1,037,720

(1) Actuarial Accrued Liability ("AAL"): the amount of subsidies expected to be paid to current retirees and current active members (future retirees) that have already been earned, measured in today's dollars.

(2) Annual Required Contribution ("ARC"): the annual amount required under the actuarial cost method and funding policy for amortizing the unfunded actuarial accrued liability. It is made up of the normal cost (the amount earned in the next year) plus the amortization of the unfunded AAL. The state is using a closed, 30-year amortization as a level percent of payroll method.

(3) Annual OPEB Cost: the ARC plus the amortization of the Net OPEB Obligation. The Annual OPEB Cost is the "expense" for financial reporting.

(4) Net OPEB Obligation ("NOO"): the cumulative difference between the Annual OPEB Cost and the actual employer contributions. The NOO is the "balance sheet liability" for financial reporting.

(5) Estimated as of June 30, 2008.

Sensitivity of Data. Certain assumptions were used in the OPEB valuation. Small changes in these assumptions could result in relatively large changes in OPEB liabilities. This valuation is based upon a "closed group" assumption and would change if an "open group" assumption were made.

The entire *2008 Other Post-Employment Benefits Actuarial Valuation Report*, including a sensitivity analysis, can be found at the state's actuarial website at *http://osa.leg.wa.gov/Actuarial_Services/OPEB/PDF_Docs/2008_OPEB_Report.pdf.*

DEMOGRAPHIC AND ECONOMIC INFORMATION

This section provides certain information concerning the economic condition of the state. The demographic information and statistical data which are provided do not necessarily present all factors which may have a bearing on the state's fiscal and economic affairs.

Overview

Population. The 2000 U.S. census count of the state's population was 5,894,121, or 21.1 percent more than the 4,866,700 counted in 1990.

The Seattle-Bellevue-Everett Primary Metropolitan Statistical Area (the "Seattle PMSA") is the biggest single component of the state's economy, with a population of 2,414,616 in 2000, up 18.8 percent since 1990. King County and the adjacent counties to the north, Snohomish and Island Counties, comprise the Seattle PMSA, which is the fourth largest metropolitan center on the Pacific Coast. The city of Seattle, located in northwestern Washington, is the largest city in the Pacific Northwest and serves as the King County seat. The population trends of King County and the Seattle PMSA show continued growth at a higher rate than Seattle's, reflecting the stable economy of the area and the greater availability of residential construction sites outside Seattle.

In the eastern half of the state, population in the Spokane area grew to 417,939 in 2000, an increase of 15.7 percent over 1990, and the Yakima area's population increased to 222,581, growing by 17.9 percent since 1990.

Infrastructure. The state is the home of two full-facility sea ports, located in Seattle and Tacoma, and the Seattle-Tacoma International Airport ("Sea-Tac"). The state also is served by the federal interstate highway system and Union Pacific and Burlington Northern-Santa Fe railroads, as well as Amtrak passenger lines.

Human Resources. The concentration of technical, engineering, managerial, scientific, and other professional skills within the state's work force is due in part to the state's state-supported higher education system, which consists of two major universities, four regional universities and a system of community colleges. In addition, the state has 18 private colleges.

Economic Base. The economic base of the state includes manufacturing and service industries as well as agricultural and timber production. Industry sectors exhibiting growth include transportation, communication and utilities employment; finance, insurance and real estate; and services. Boeing, the state's largest private employer, is preeminent in aircraft manufacture and exerts a significant impact on overall state production, employment and labor earnings. The state ranks fourth among 12 leading states in the percentage of its work force employed in technology-related industries and ranks third among the largest software development centers. The state is the home of approximately 1,000 advanced technology firms, including Microsoft Corporation. The state's leading export industries are aerospace, forest products, agriculture, and food processing.

Population Characteristics

COMPONENTS OF POPULATION CHANGE
STATE OF WASHINGTON
1996-2008
(Population Numbers in Thousands)

		Population Change	
April 1	Population	Number	Percent
1996	5,567.8	97.7	1.8
1997	5,663.8	96.0	1.7
1998	5,750.0	86.3	1.5
1999	5,830.8	80.8	1.4
2000	5,894.1	63.3	1.1
2001	5,974.9	80.8	1.4
2002	6,041.7	66.8	1.1
2003	6,098.3	56.6	0.9
2004	6,167.8	69.5	1.1
2005	6,256.4	88.6	1.4
2006	6,375.6	119.2	1.9
2007	6,488.0	112.4	1.8
2008*	6,587.6	99.6	2.8

* Revenue forecast as of June 2009.

Source: *Office of Financial Management, available at* http://www.ofm.wa.gov/databook/#population

DISTRIBUTION OF POPULATION BY AGE
STATE OF WASHINGTON
(Population Numbers in Thousands)

Age	1990	Percent of Total	2000	Percent of Total	2008	Percent of Total
under 5	374,357	7.7	394,306	6.7	433,346	6.6
5-19	1,031,290	21.2	1,288,713	21.9	1,334,021	20.3
20-24	352,530	7.2	390,185	6.6	474,655	7.2
25-34	855,519	17.6	841,130	14.3	890,586	13.5
35-44	800,915	16.5	975,087	16.5	926,992	14.1
45-54	499,706	10.3	845,972	14.4	990,197	15.0
55-64	380,971	7.8	496,580	8.4	766,492	11.6
65 and over	571,404	11.7	662,148	11.2	771,311	11.7

Source: *Office of Financial Management, available at www.ofm.wa.gov/databook/contents.htm#population, and the U.S. Bureau of Census, available at* www.census.gov/statab/www/

Income Characteristics

The following table provides a comparison of personal income for the state and the nation for ten years of historical data and one year of projections.

PERSONAL INCOME COMPARISON
WASHINGTON AND U.S.
1999-2009
(Dollars in Billions)

	Current Dollars[1]				2000 Chained Dollars[2]			
	Washington		United States		Washington		United States	
Year	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
1999	175.5	7.2	7,802.4	5.1	179.9	5.4	7,997.1	3.4
2000	187.9	7.0	8,429.7	8.0	187.9	4.4	8,430.1	5.4
2001	193.5	3.0	8,724.1	3.5	189.5	0.9	8,545.4	1.4
2002	197.5	2.0	8,881.9	1.8	190.7	0.6	8,578.4	0.4
2003	202.9	2.8	9,163.6	3.2	192.2	0.8	8,678.4	1.2
2004	218.4	7.6	9,727.2	6.2	201.5	4.9	8,974.8	3.4
2005	226.6	3.7	10,269.8	5.6	203.1	0.8	9,204.6	2.6
2006	245.8	8.5	10,993.9	7.1	214.3	5.5	9,587.4	4.2
2007	265.7	8.1	11,663.3	6.1	225.9	5.4	9,913.2	3.4
2008	276.3	4.0	12,100.7	3.8	227.2	0.6	9,952.0	0.4
2009[3]	276.4	0.1	12,109.7	0.1	226.3	(0.4)	9,914.0	(0.4)

(1) Current dollars: the actual price of something when it was bought, not adjusted for cost of living index (commonly called inflation).

(2) Chained dollars: created from the geometric mean of two growth calculations; allows for a comparison of data in a time series to accurately indicate growth or decline in indicators.

(3) Revenue forecast as of June 2009.

Source: Washington State Office of the Forecast Council and U.S. Department of Commerce, Bureau of Economic Analysis

PER CAPITA PERSONAL INCOME COMPARISON
WASHINGTON AND U.S.
1999-2008

Year	Washington	United States
1999	$ 37,429	$ 34,815
2000	38,641	36,290
2001	38,490	36,421
2002	38,289	36,213
2003	38,244	36,305
2004	39,651	37,194
2005	39,476	37,801
2006	40,968	39,012
2007	42,579	39,904
2008	42,356	39,715

Source: Washington State Office of the Forecast Council

Employment Characteristics

AVERAGE ANNUAL EMPLOYMENT [1]
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT IN WASHINGTON STATE
(Employment Numbers in Thousands)

	2004	2005	2006	2007	2008	2009[2]
Resident Civilian Labor Force	3,199.2	3,258.8	3,319.6	3,391.2	3,476.8	3,558.4
Unemployment	199.7	179.4	162.6	153.9	185.8	336.4
Unemployment Rate (Percent)	6.2	5.5	4.9	4.5	5.3	9.5
Total Employment	2,999.5	3,079.5	3,157.0	3,237.4	3,291.0	3,221.9
Nonagricultural Wage and Salary Workers Employed in Washington						
Nonfarm	2,701.0	2,777.0	2,859.1	2,933.6	2,958.9	2,850.5
Durable Manufacturing	182.4	191.5	204.0	211.9	211.3	194.0
Aerospace	61.5	65.6	73.4	80.1	83.0	82.7
Computer	22.1	22.2	22.5	22.7	22.5	20.0
Nondurable Manufacturing	81.3	81.1	81.9	81.4	79.8	73.3
Natural	9.1	9.0	8.7	8.2	7.5	6.8
Construction	164.2	177.4	194.9	208.2	200.7	167.7
Trade, Transportation, Communication, Utilities	518.4	530.4	541.6	553.4	553.5	533.7
Information	92.8	94.7	98.4	102.4	105.6	102.3
Software	39.3	41.3	44.7	47.6	50.9	51.7
Financial	151.8	154.5	156.2	155.5	152.3	144.4
Professional	301.6	316.1	330.5	344.7	348.8	326.7
Education	319.7	329.3	337.2	348.3	362.0	370.4
Leisure	255.6	263.5	271.7	280.5	283.7	276.7
Other Service	100.3	102.7	104.0	105.3	107.3	104.7
Government	523.7	526.7	530.0	533.8	546.3	549.7

(1) Averages of monthly data.
(2) Revenue forecast as of June 2009.

Source: Washington State Office of the Forecast Council

COMPARISON OF EMPLOYMENT TRENDS BY INDUSTRY SECTOR (%) [1]

	State		United States	
	1999	2009[2]	1999	2009[2]
Manufacturing				
Nondurable Manufacturing				
Food and Kindred	1.5	1.2	1.2	1.1
Pulp and Paper	0.6	0.3	0.5	0.3
Other	1.6	1.1	3.4	2.1
Subtotal	3.6	2.6	5.0	3.5
Durable Manufacturing				
Lumber and Wood	0.8	0.5	0.5	0.3
Primary Metals	0.4	0.2	0.5	0.3
Fabricated Metals	0.7	0.6	1.3	1.0
Machinery	0.6	0.5	1.1	0.8
Computers	1.3	0.7	1.4	0.9
Transportation Equipment	4.3	3.3	1.6	1.0
Other	1.3	1.1	2.0	1.3
Subtotal	9.3	6.8	8.4	5.5
Total Manufacturing	13.0	9.4	13.4	9.0
Nonmanufacturing				
Natural Products	0.4	0.2	0.5	0.5
Construction	5.8	5.9	5.1	4.7
Trade, Transportation, Communication, Utilities	19.6	18.7	20.0	19.2
Information	3.2	3.6	2.6	2.1
Financial	5.4	5.1	5.9	5.9
Professional	10.8	11.5	12.4	12.7
Education	10.6	13.0	11.5	14.6
Leisure	9.3	9.7	8.9	10.0
Other	3.9	3.7	3.9	4.1
Government	17.9	19.3	15.7	17.1
Total Nonmanufacturing	87.0	90.7	86.6	91.0
Total[3]	100.0	100.0	100.0	100.0

(1) Figures are calculated as a percentage of total wage and salary employment.

(2) Revenue forecast as of June 2009.

(3) Numbers may not add due to rounding.

Source: Washington State Office of the Forecast Council

ANNUAL AVERAGE CIVILIAN LABOR FORCE, UNEMPLOYMENT AND UNEMPLOYMENT RATES FOR WASHINGTON AND THE UNITED STATES

2002-2009

(Employment Numbers in Thousands)

	Civilian Labor Force		Number of Unemployed		Unemployment Rate		State Unemployment
Year	State	US	State	US	State (%)	US (%)	as % of US Rate (%)
2002	3,105	145,125	228	8,644	7.3	5.8	126.8
2003	3,146	146,500	233	8,770	7.4	6.0	123.6
2004	3,199	147,380	200	8,140	6.2	5.5	112.7
2005	3,259	149,292	179	7,578	5.5	5.1	108.5
2006	3,320	151,413	163	6,992	4.9	4.6	106.1
2007	3,391	153,126	154	7,077	4.5	4.6	97.9
2008	3,477	154,329	186	8,961	5.3	5.8	91.9
2009*	3,558	154,672	336	14,279	9.5	9.2	102.4

* Revenue forecast as of March 2009.

Source: Washington State Office of the Forecast Council and the U.S. Dept. of Labor, Bureau of Labor Statistics

Companies. The following tables provide information on the top companies headquartered in the state, ranked by revenues and by number of employees in the state. The Boeing Company, headquartered in Chicago, Illinois, is the largest employer in the state, with revenues in 2008 of $60.9 billion.

WASHINGTON'S TWENTY-FIVE LARGEST PUBLIC COMPANIES, RANKED BY 2008 NET REVENUE

(in Millions)

		Net Revenues			Net Revenues
1.	Costco Wholesale Corp.	$ 72,483	14.	Plum Creek Timber Co. Inc.	$ 1,614
2.	Microsoft Corp.	60,420	15.	Esterline Technology Corp.	1,483
3.	Amazon.com Inc.	19,166	16.	TrueBlue Inc.	1,384
4.	Paccar Inc.	14,972	17.	Eddie Bauer Holdings Inc.	1,023
5.	Starbucks Corp.	10,383	18.	Coinstar Inc.	912
6.	Nordstrom Inc.	8,272	19.	Intermec (formerly Unova Inc.)	891
7.	Weyerhaeuser Corp.	8,018	20.	Sterling Financial Corp.	787
8.	Expeditors International Inc.	5,634	21.	Emeritus Corp.	769
9.	Alaska Air Group Inc	3,663	22.	F5 Networks Inc.	650
10.	Puget Energy	3,358	23.	Washington Federal Inc.	641
11.	Expedia Inc.	2,937	24.	RealNetworks Inc.	605
12.	Itron Inc.	1,910	25.	Potlatch Corp.	440
13.	Avista Corp.	1,677			

Source: Puget Sound Business Journal, 2008 Book of Lists

WASHINGTON'S TWENTY-FIVE LARGEST COMPANIES, RANKED BY NUMBER OF EMPLOYEES IN THE STATE

Rank	Company	Number of Employees
1	The Boeing Company	71,353
2	Microsoft	33,053
3	University of Washington	24,443
4	Wal-Mart Stores	16,597
5	Naval Base Kitsap	15,268
6	Providence Health and Services	14,838
7	King County Government	12,678
8	Fred Meyer Stores	11,800
9	City of Seattle	9,798
10	Alaska Air Group	8,030
11	Costco Wholesale Group	7,416
12	Washington State University	7,118
13	Weyerhaeuser Company	7,077
14	Washington Mutual	7,000
15	Group Health Cooperative	5,731
16	Bank of America	5,537
17	Macy's Northwest	5,448
18	Nordstrom	5,437
19	Quality Food Centers	5,400
20	Home Depot	5,200
21	Seattle School District	5,072
22	Fairchild Air Force Base	4,959
23	Naval Air Station Whidbey Island	4,868
24	Safeway	4,735
25	AT&T	4,690

Source: Puget Sound Business Journal, 2008 Book of Lists

Annual Retail Sales Activity

The state is home to a number of specialty retail companies that have reached national stature, including Nordstrom, Eddie Bauer, Costco, and Recreational Equipment Inc. The following table provides a history of retail sales activity in the state.

FISCAL YEAR RETAIL SALES ACTIVITY 1998-2008*
(Dollars in Billions)

Year	Washington	% Change	United States	% Change
1998	72.1	8.0	2,778.3	4.8
1999	77.2	7.1	2,948.9	6.1
2000	83.3	8.0	3,205.0	8.7
2001	85.6	2.8	3,333.5	4.0
2002	84.4	(1.4)	3,430.1	2.9
2003	86.2	2.1	3,531.5	3.0
2004	90.1	4.6	3,752.1	6.2
2005	97.3	7.9	4,038.7	7.6
2006	107.0	9.9	4,287.4	6.1
2007	115.5	7.9	4,432.6	3.3
2008	118.7	2.7	4,492.6	3.2

* U.S. data based on sales by retail and food service establishments. Washington data reflects sales subject to the Washington 6.5 percent retail sales tax.

Source: Washington State Office of the Forecast Council and the U.S. Department of Commerce

Trade

One in six jobs in the state is related to international trade. The state, particularly the Puget Sound corridor, is a trade center for the Northwest and the state of Alaska. During the past 20 years, the state consistently has ranked number one or number two in the nation in international exports per capita.

Ports. The Ports of Seattle and Tacoma serve as one of the three major gateways for marine commerce into the United States from the Pacific Rim, and each rank among the top 20 ports in the world based upon volume of containerized cargo shipped. The ten largest shipping lines in the world call at these ports, and on a combined basis, these ports rank as the second-largest load center for the shipment of containerized cargo in the United States.

Approximately 70 percent of the cargo passing through the Ports of Seattle and Tacoma has an ultimate destination outside of the Pacific Northwest. Therefore, trade levels depend largely on national and world economic conditions, rather than local economic conditions.

Airport. The city of Seattle is the commercial center for the state and is near a major international airport, Sea-Tac, which has scheduled passenger service by 15 major/national, three regional/commuter and ten foreign flag carriers. In addition, 16 all-cargo carriers have scheduled cargo service at Sea-Tac. Sea-Tac is the 23rd busiest airport in the nation for aircraft operations and the 20th busiest cargo airport.

Manufacturing

The state's manufacturing base includes aircraft manufacture, with the aerospace industry currently representing approximately eight percent of all taxable business income generated in the state. Boeing remains the largest employer in the Puget Sound area. In September 2001, the company relocated its corporate headquarters to Chicago, Illinois, a move that affected approximately one-half of the 1,000 people who worked in the Seattle location.

While Boeing has dominated manufacturing employment, other manufacturers also have experienced growth, thus reducing Boeing's percentage of total manufacturing jobs in the state.

Technology-Related Industries

The most significant growth in manufacturing jobs, exclusive of aerospace, has occurred in high technology-based companies. The state ranks fourth among all states in the percentage of its work force employed in technology-related industries and ranks third among the largest software development centers. The state is the home of approximately 1,000 advanced technology firms; nearly 50 percent of these firms are computer-related businesses. Microsoft, which is headquartered in Redmond, Washington, is the largest microcomputer software company in the world.

Services/Tourism

As the business, legal and financial center of the state, Seattle ranks ninth in the country in the number of downtown hotel rooms (7,600 rooms in 50 hotels and motels). The Washington State Convention and Trade Center opened in June 1988, with the capacity for events involving as many as 11,000 people. An expansion of the Convention and Trade Center that doubled the exhibition space and added a private office tower, hotel and museum was completed in 2001.

Timber

Natural forests cover more than 40 percent of the state's land area. Forest products rank second behind aerospace in value of total production. The Weyerhaeuser Company is the state's largest forest products employer.

A continued decline in overall production during the next few years is expected due to federally imposed limitations on the harvest of old-growth timber and the inability to maintain the recent record levels of production increases. The decline is not expected to have a significant effect on the state's overall economic performance.

Agriculture and Food Processing

Agriculture, combined with food processing, is an important state industry. The state's major products—wheat, apples, milk, and cattle—comprise more than half of total production. The values and uses of farmland in the state are expected to change in the future, with the listing of local salmon runs as endangered by the U.S. Environmental Protection Agency.

Construction

The following table provides information on housing units for the state and the United States.

HOUSING UNITS AUTHORIZED IN WASHINGTON AND THE UNITED STATES
2001-2009

Year	State	US[1]
2001	38,345	1,601,167
2002	40,200	1,710,250
2003	42,825	1,853,750
2004	50,089	1,949,500
2005	52,988	2,072,917
2006	50,033	1,811,917
2007	47,397	1,341,833
2008	28,919	900,333
2009[2]	14,425	540,055

(1) Actual housing starts prior to current year.
(2) Revenue forecast as of June 2009.

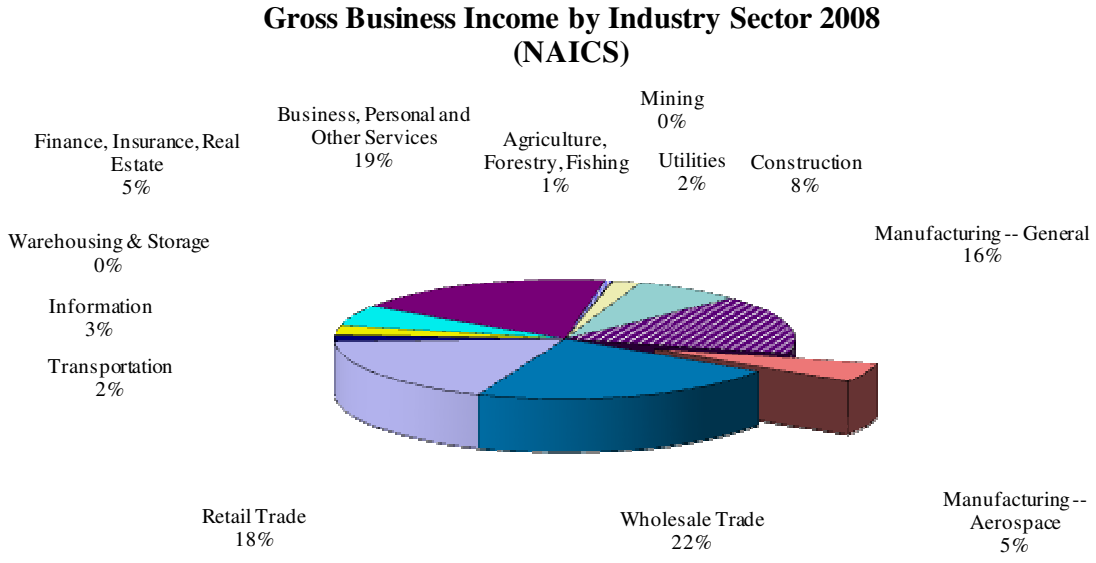
S*ource: Washington State Office of the Forecast Council and the Department of Commerce*

Federal, State and Local Government

On a combined basis, employment in the government sector represents approximately 18.7 percent of all wage and salary employment in the state. Seattle is the regional headquarters of a number of federal government agencies, and the state receives an above-average share of defense expenditures.

Summary

The following diagram provides an overall description of business income by industry sector for 2008.



Source: Department of Revenue, "Quarterly Business Review Calendar Year 2008", Table 1.

APPENDIX B

DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS

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DEFINITIONS AND SUMMARY OF CERTAIN LEGAL DOCUMENTS

The following is a summary of certain provisions of the Master Financing Lease, Trust Agreement, Site Leases, Master Assignment, and Financing Leases, including certain defined terms used within this Official Statement. Reference is directed to each of such documents for the complete text thereof. Copies of such documents are available from the Office of the State Treasurer.

CERTAIN DEFINITIONS

The following are definitions of certain terms used in this Appendix B and elsewhere in the Official Statement.

Act means Chapter 365 of the Laws of Washington, 1989, codified as Chapter 39.94 RCW, as supplemented and amended.

Additional Financing Lease Agreements means, collectively, any Additional State Agency Financing Lease Addendum, Additional Site Lease, Additional Master Financing Lease and Additional Master Assignment.

Additional Master Assignment means any future Master Assignment relating to an Additional Master Financing Lease.

Additional Master Financing Lease means any future Master Financing Lease entered into for the purpose of financing additions, betterments and improvements to the Property.

Additional Rent means all costs, expenses, insurance premiums, Impositions and other payments, including Administrative Fees and Expenses, that are the obligations of the State Treasurer or the Agency pursuant to the terms of the Master Financing Lease or each Financing Lease, as the case may be.

Additional Site Lease means any future lease of a Site by the Agency in connection with an Additional State Agency Financing Lease Addendum.

Additional State Agency Financing Lease Addendum means any future State Agency Financing Lease Addendum entered into by the Agency for the purpose of financing additions, betterments and improvements to the Property pursuant to Section 2.2(c) of the State Agency Financing Lease Addendum.

Administrative Fees and Expenses means all application, commitment, financing or similar fees charged, or administrative or other expenses incurred, with respect to the administration and maintenance of the Certificates and the Series 2009F Agreements.

Agency means the State Agency.

Agency Event of Default has the meaning given such term in the Financing Lease, as described in this Appendix B under the caption "Financing Lease—Agency Event of Default."

Agency Interest Component means that portion of each Agency Payment denominated as and comprising interest as set forth in the Financing Lease.

Agency Payment means each Agency Rent Payment.

Agency Principal Component means that portion of each Agency Payment denominated as and comprising principal as set forth in the Financing Lease.

Agency Rent Payment Dates means each December 1 and June 1, as specified in the related Financing Lease, on which an Agency Rent Payment is due.

Agency Rent Payment Fund means the fund of that name maintained by the State Treasurer pursuant to the Master Financing Lease.

Agency Rent Payments means the rent payments to be made by the Agency as set forth in the Financing Lease.

Authorized Agency Representative means the natural person (i) designated on the certificate of the Agency in the form set forth in the Financing Lease and includes any other officer appointed by the chief elected official or administrative official of such Agency and (b) whose signature is on file with the Fiscal Agent and the Treasurer Representative.

Authorized Corporation Representative means the President from time to time of the Corporation, unless such President shall have designated another officer of the Corporation, in which case "Authorized Corporation Representative" shall mean such other officer.

Authorized Denomination means $5,000 and any integral multiple thereof.

Base Rent Payment means a rent payment to be made by the State Treasurer as set forth in the Master Financing Lease.

Base Rent Payment Date means each January 1 and July 1, as specified in the Trust Agreement, on which a Base Rent Payment evidenced and represented by the Certificates is due.

Beneficial Owner means any Person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Certificates (including Persons holding Certificates through nominees, depositories or other intermediaries).

Biennium means the fiscal period of the State.

Business Day means any day other than (i) a Saturday, (ii) a Sunday, (iii) a day on which banking institutions located in the state of Washington are authorized or required by law to remain closed, or (iv) a day on which the Principal Office of the Fiscal Agent or the New York Stock Exchange is closed.

Certificate Counsel means a firm of attorneys appointed by the State Treasurer of recognized national standing in the field of law relating to the issuance of certificates of participation, bonds and other obligations by states and their political subdivisions, and the exclusion of interest thereon from gross income for federal income tax purposes.

Certificate Fund means the "State of Washington Certificates of Participation, Series 2009F Certificate Fund" established pursuant to the Trust Agreement.

Certificate of the State Treasurer, ***Written Request of the State Treasurer*** and ***Written Order of the State Treasurer*** each mean an instrument in writing signed by a Treasurer Representative.

Certificate Register means the records for the registration of the Certificates maintained by the Fiscal Agent.

Certificates means the certificates of participation in the State Payments executed and delivered by the Fiscal Agent pursuant to the Trust Agreement in the Initial Principal Amount and designated as the "State of Washington Certificates of Participation, Series 2009F (State Board for Community and Technical Colleges."

Closing Date means the date on which the Certificates are delivered to the Underwriter in exchange for payment therefor.

Code means the Internal Revenue Code of 1986, as amended, together with all regulations promulgated by the United States Department of the Treasury thereunder.

Corporation means the Washington Finance Officers Association or any other Washington nonprofit corporation selected by the State Treasurer's Office from time to time, and any successors and permitted assigns thereof, including without limitation the Fiscal Agent as assignee pursuant to the Master Assignment.

Costs of Issuance means administrative expenses, legal, accounting, financial and printing expenses, and all other expenses incurred in connection with the preparation, execution and delivery of the Series 2009F Agreements and the Certificates.

Dated Date means the date of initial delivery of the Certificates, expected to be August 11, 2009.

Disclosure Agreement means an agreement for ongoing disclosure in compliance with the Rule, dated as of the Dated Date, executed and delivered by the Treasurer Representative and/or by the Authorized Agency Representative with respect to the Certificates.

DTC means The Depository Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, as depository for the Certificates, or any successor or substitute depository for the Certificates.

Event of Default means an Event of Default as set forth in the Master Financing Lease as described in this Appendix B under the caption "Master Financing Lease—Events of Default."

Executive Order, for purposes of the Master Financing Lease, means an order issued by the Governor of the State pursuant to sections 43.88.050 and 43.88.110 RCW, as amended or re-enacted.

Financing Lease means each State Agency Financing Lease Addendum.

Fiscal Agent means The Bank of New York Mellon, a banking corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, or any other bank or trust company which may at any time be substituted in its place pursuant to the Trust Agreement.

Fitch means Fitch IBCA, Inc., and its successors and assigns, and, if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency (other than Moody's and S&P) designated by the Treasurer Representative with the consent of the Fiscal Agent.

Government Obligations means obligations described in paragraph (i) of the definition of Qualified Investments below.

Impositions means all federal, State and local real and personal property taxes and assessments (including assessments for public improvements), license and permit fees, charges for public utilities, leasehold excise taxes, other excise taxes, levies, use and occupancy taxes, privilege taxes, business and occupation taxes and all other governmental impositions and charges of every kind and nature, general and special, ordinary and extraordinary, foreseen and unforeseen, which are imposed, levied upon or assessed against or which arise with respect to the Property (or any portion thereof), any State Payments, Agency Payments, Prepaid Site Lease Rent or Additional Rent, or other sums payable under the Master Financing Lease, the Financing Leases or the Site Leases, the leasehold estate created by the Site Leases, the Master Financing Lease, or the operation, use or possession of the applicable Property, and all income, gross receipts or similar taxes imposed, levied upon, assessed against, or measured by any Agency Payments, State Payments, Prepaid Site Lease Rent, Additional Rent, or other sums payable under the Site Leases, the Master Financing Lease or the Financing Leases, and all sales, value added, *ad valorem*, use and similar taxes levied, assessed or payable on account of the leasing, use, possession, control, or operation of the Property, and all charges, fees and assessments for utilities, communications and similar services provided to the Property.

Information Services means Financial Information, Inc.'s "Daily Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 55 Broad Street, 28th Floor, New York, New York 10004; Moody's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard and Poor's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then-current guidelines of the SEC, such other addresses and/or such other services providing information with respect to called bonds, as the State Treasurer may designate in a Certificate of the State Treasurer delivered to the Fiscal Agent.

Initial Principal Amount means the aggregate initial Principal Components evidenced and represented by the applicable Certificates as set forth in the Trust Agreement.

Interest Account means the account by that name established pursuant to the Trust Agreement.

Interest Component means that portion of each State Payment denominated as and comprising interest as set forth in the Master Financing Lease.

Interest Payment Date means each January 1 and July 1 on which an Interest Component is due as set forth in the Master Financing Lease.

Land Lease means that certain Lease No. 60-057220 between the State Department of Natural Resources, as lessor, and the Agency, as lessee, granting to the Agency a 75-year leasehold interest in one of the Sites, with a remaining term of 38 years.

LGIP means the Local Government Investment Pool administered by the Office of the State Treasurer.

Letter of Representation means the blanket issuer letter of representations from the State Treasurer to DTC.

Master Assignment means the Master Assignment, Series 2009F, dated as of the Dated Date, executed and delivered in connection with the Certificates.

Master Financing Lease means the Master Financing Lease, dated as of the Dated Date, by and between the Corporation and the State, acting by and through the State Treasurer, as supplemented and amended.

Moody's means Moody's Investors Service, and its successors and assigns, and, if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency (other than Fitch and S&P) designated by the Treasurer Representative with the consent of the Fiscal Agent.

MSRB means the Municipal Securities Rulemaking Board or any successor to its functions.

Notice of Intent means the Notices of Intent in the form attached to the Financing Lease.

OFM means the State Office of Financial Management established in the Office of the Governor of the State pursuant to Chapter 43.41 RCW, or any successor to the functions of the OFM, charged with responsibility of submitting budgets to the State Legislature.

Opinion of Counsel means a written opinion of Certificate Counsel satisfactory to the State Treasurer and the Fiscal Agent.

Outstanding means all Certificates executed and delivered pursuant to the Trust Agreement, except:

(i) Certificates theretofore canceled by the Fiscal Agent, or delivered to the Fiscal Agent for cancellation;

(ii) Certificates for which the payment or prepayment of the State Payments evidenced and represented thereby has been made or duly provided for pursuant to the Master Financing Lease and the Trust Agreement; and

(iii) Certificates in lieu of or in substitution for which other Certificates have been executed and delivered pursuant to the Trust Agreement.

Owner means the registered owner of a Certificate as set forth on the Certificate Register.

Parties means, as the context requires, the State, the Corporation, the Agency, and/or the Fiscal Agent.

Paying Agent means any paying agent for the Certificates appointed pursuant to the Trust Agreement.

Permitted Encumbrances means, as of any particular time:

(i) Liens for general *ad valorem* taxes and assessments, if any, that are not then delinquent;

(ii) The Land Lease;

(iii) The Site Leases;

(iv) The Master Financing Lease;

(v) The Master Assignment;

(vi) The Financing Leases;

(vii) Any Additional Finance Lease Agreements;

(viii) Any right or claim of any mechanic, laborer, materialmen, supplier or vendor filed or perfected in the manner provided by law;

(ix) Easements, rights of way, mineral rights, drilling rights, and other rights, reservations, covenants, conditions or restrictions which (a) exist of record as of the Dated Date and which the respective Agency certifies in writing will not materially impair the use of the Property by such Agency, and (b) arise thereafter and to which the State Treasurer and the Corporation consent in writing; and

(x) Exceptions, including the Land Lease, shown on any title insurance policies issued with respect to the Property as of the date of execution and delivery of the Certificates.

Permitted Termination Date means with respect to a Permitted Termination Event occurring as a result of an election by the State Legislature not to appropriate, the end of the last Biennium for which funding has been provided; or, with respect to a Permitted Termination Event occurring as a result of an Executive Order reduction in funding, the end of the last month for which funding is available to pay Agency Payments due from the Agency.

Permitted Termination Event means, with respect to the Agency:

(i) (a) sufficient funds have not been appropriated within any biennial budget for the purpose of paying Agency Rent Payments in the next occurring Biennium or,

(b) the Governor of the State has issued an Executive Order mandating an emergency reduction in State funding; and

(ii) the Treasurer Representative has delivered written notice to the Fiscal Agent, within five (5) Business Days following the enactment of such budget or within thirty (30) days following such an emergency reduction in State funding, as the case may be, describing the election not to appropriate the necessary funds or the insufficiency of funds as a result of an emergency reduction in funding and stating the Permitted Termination Date.

Person or ***persons*** means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Prepaid Site Lease Rent has the meaning given such term in each Site Lease.

Prepayment Account means the account by that name established pursuant to the Trust Agreement.

Prepayment Date means each date, other than a Principal Payment Date, on which Principal Component evidenced and represented by the Certificates is to be prepaid.

Prepayment Price means the price payable pursuant to the Master Financing Lease upon any optional or mandatory prepayment of Principal Components evidenced and represented by the Certificates.

Principal Account means the account by that name established pursuant to the Trust Agreement.

Principal Component means that portion of each Base Rent Payment denominated as and comprising principal as set forth in the Master Financing Lease.

Principal Office means, with respect to the State Treasurer, the office in Olympia, Washington, designated in writing by the State Treasurer to the Fiscal Agent, and, with respect to the Fiscal Agent, the corporate trust office of the Fiscal Agent located in New York, New York, designated in writing by the Fiscal Agent to the State Treasurer.

Principal Payment Date means each July 1 on which a Principal Component is due as set forth in the Master Financing Lease.

Project means the acquisition and construction of certain real property and improvements on each Site pursuant to the applicable Financing Lease.

Project Costs means all costs incurred by or on behalf of the Corporation, or the State or the Agency, as agent of the Corporation, on, prior to or after the effective date of the Master Financing Lease in connection with the acquisition or construction of the Property or the Project thereunder, as applicable, and shall include, but not be limited to:

(i) the cost of such Property or the Project (including, but not limited to, charges for design, testing and similar charges);

(ii) the expenses of the State Treasurer and the Agency in connection with the acquisition or construction of the Property or the Project, including but not limited to the Costs of Issuance;

(iii) any taxes, assessments and other charges, if any, payable in connection with the acquisition or construction of the Property or the Project; and

(iv) any amounts required to reimburse the State Treasurer or the Agency for advances or payments made prior to the effective date of the Master Financing Lease for any of the above costs.

Project Fund means the "State of Washington Certificates of Participation, Series 2009F Project Fund" established by the State Treasurer pursuant to the Trust Agreement and the Master Financing Lease.

Property means, with respect to each Financing Lease, the Site and the Project leased by the State Treasurer to the Agency, and, with respect to the Master Financing Lease, means collectively all of such Property.

Qualified Investments shall include the following:

(i) Any securities (including obligations held or issued in book-entry form on the books of the Department of the Treasury of the United States of America) which constitute direct obligations of, or the timely payment of the principal of and interest on which is unconditionally guaranteed by, the United States of America;

(ii) Federal Home Loan Bank Bonds and Discount Notes; Federal National Mortgage Association Bonds and Discount Notes; Federal Farm Credit Banks Consolidated System-Wide Bonds and Discount Notes; Federal Home Loan Mortgage Corporation Bonds and Discount Notes; Government National Mortgage Association Bonds; Student Loan Marketing Association Bonds and Discount Notes; Small Business Administration Bonds; Export-Import Bank Bonds; Maritime Administration Bonds; and Obligations of any other Government Sponsored Corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System;

(iii) Bankers acceptances, which are eligible for purchase by the Federal Reserve System, drawn on and accepted by a commercial bank (which may include the Fiscal Agent) having a combined capital and surplus of not less than $100,000,000, which bank has at the time of investment one of the two highest ratings of a Rating Agency;

(iv) Commercial paper having original maturities of not more than 365 days which has at the time of investment one of the two highest ratings of a Rating Agency, which is issued by a corporation organized and operating in the United States with total assets in excess of $100,000,000;

(v) Bonds of the State and any local government in the State, which bonds have at the time of investment one of the three highest credit ratings of a Rating Agency;

(vi) General obligation bonds of a state other than the State and general obligation bonds of a local government of a state other than the State, which bonds have at the time of investment one of the three highest credit ratings of a Rating Agency;

(vii) Any investments authorized by law for the State Treasurer or any local government of the State;

(viii) Shares of money market funds with portfolios consisting of only U.S. Treasury and agency securities or repurchase agreements, which have at the time of investment one of the three highest ratings of a Rating Agency;

(ix) Any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Fiscal Agent) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities described in clauses (a) or (b) above;

(x) The LGIP; and

(xi) Any other legal investment for funds held by the State Treasurer.

RCW means the Revised Code of Washington, as supplemented and amended.

Rating Agency means Fitch, Moody's or S&P.

Rating Category means the generic rating categories of the Rating Agency, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

Rebate Fund means the "State of Washington Certificates of Participation, Series 2009F Rebate Fund" which may be established pursuant to the Master Financing Lease.

Rebate Requirement has the meaning given to such term in the Tax Certificate.

Record Date means the 15th day of the month immediately preceding each Interest Payment Date and Principal Payment Date.

Resolution means Resolution No. 987 adopted by the State Finance Committee on October 7, 2003.

Rule means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

S&P means Standard & Poor's Ratings Group, and its successors and assigns, and, if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency (other than Fitch and Moody's) designated by the Treasurer Representative with the consent of the Fiscal Agent.

SEC means the Securities and Exchange Commission.

Securities Depositories means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax-(215) 496-5058; or, in accordance with then-current guidelines of the SEC, such other addresses and/or such other securities depositories as the State Treasurer may designate in a Certificate of the State Treasurer delivered to the Fiscal Agent.

Series 2009F Agreement means, as the context requires, the Trust Agreement, the Site Leases, the Master Financing Lease, the Financing Leases, the Master Assignment or the Disclosure Agreement, and collectively means all such agreements in connection with the Certificates.

Site means the real property legally described in each Site Lease, including the improvements thereon as of the Dated Date.

Site Lease means each Site Lease, dated as of the Dated Date, by and between the Agency and the Corporation for the lease of a parcel or parcels of the Property by the Agency to the Corporation.

State means the state of Washington.

State Agency means the State Board for Community and Technical Colleges.

State Agency Financing Lease Addendum means each State Agency Financing Lease Addendum to the Master Financing Lease, dated as of the Dated Date, executed by the Treasurer Representative and the Agency.

State Finance Committee means the state finance committee as constituted from time to time pursuant to Chapter 43.33 RCW.

State Legislature means the Legislature of the state of Washington.

State Payment means each Base Rent Payment.

State Reimbursement Rate means the average rate of return on the LGIP over the period the reimbursement payment by the Agency to the State Treasurer is delinquent, as determined by the State Treasurer, which determination shall be binding and conclusive against the Agency absent manifest error.

State Sublease Termination Date has the meaning given such term in the Master Financing Lease.

State Treasurer means the Treasurer of the state of Washington.

Supplemental Agreement means any agreement duly authorized and entered into following the Closing Date between or among the State Treasurer, the Corporation, and the Fiscal Agent (in the case of the Trust Agreement, the Master Financing Lease, or the Master Assignment), or the Agency (in the case of the Financing Leases or the Site Leases) supplementing, modifying or amending the Trust Agreement, the Site Leases, the Master Financing Lease, the Master Assignment, or the Financing Leases.

Tax Certificate means the Tax Certificate executed and delivered by the Treasurer Representative and/or Authorized Agency Representatives regarding compliance with applicable provisions of the Code in connection with the Site Leases, the Master Financing Lease, the Financing Leases, and the Certificates.

Term Certificates means the Certificates identified as such in the Trust Agreement.

Toxic or Hazardous Substances shall be interpreted broadly to include, but not be limited to, any material or substance that is defined or classified under federal, State or local laws as:

(i) a "hazardous substance" pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601(14) or Section 311 of the Federal Water Pollution Control Act, 33 U.S.C. § 1321, each as now or thereafter amended;

(ii) a "hazardous waste" pursuant to Section 1004 or Section 3001 of the Resource Conservation and Recovery Act, 42 U.S.C. § 6903, 42 U.S.C. § 6921, as now or thereafter amended;

(iii) a toxic pollutant under Section 307(1)(a) of the Federal Water Pollution Control Act, 33 U.S.C. § 1317(1)(a);

(iv) a "hazardous air pollutant" under Section 112 of the Clean Air Act, 42 U.S.C. § 7412, as now or thereafter amended;

(v) a "hazardous material" under the Hazardous Material Transportation Act, 49 U.S.C. § 1802(2), as now or thereafter amended;

(vi) toxic or hazardous pursuant to regulations promulgated now or thereafter under the aforementioned laws; or

(vii) presenting a risk to human health or the environment under other applicable federal, State or local laws, ordinances, or regulations, as now or as may be posed or promulgated in the future.

"Toxic or Hazardous Substances" shall also mean any substance that after release into the environment and upon exposure, ingestion, inhalation or assimilation, either directly from the environment or indirectly by ingestion through food chains, will or may reasonably be anticipated to cause death, disease, behavior abnormalities, cancer or genetic abnormalities. "Toxic or Hazardous Substances" specifically includes, but is not limited to, asbestos, polychlorinated biphenyls (PCBs), petroleum and petroleum-based derivatives, flammable explosives, radioactive materials and urea formaldehyde.

Treasurer Representative means the State Treasurer, the Assistant State Treasurer or the Deputy State Treasurer of the State, and shall include any other natural person who at the time and from time to time may be designated by a Certificate of the State Treasurer delivered to the Party relying thereon. Such Certificate shall contain the specimen signature of such person, and shall be signed on behalf of the State by the State Treasurer, the Assistant State Treasurer or the Deputy State Treasurer.

Trust Agreement means the Trust Agreement, dated as of the Dated Date, by and among the State Treasurer, the Corporation and the Fiscal Agent, as supplemented and amended in accordance therewith.

Underwriter means the original purchaser of the Certificates.

MASTER FINANCING LEASE

Sublease of Property

The Corporation subleases to the State, and the State hires from the Corporation, upon the terms and conditions set forth in the Master Financing Lease, the real property and all improvements thereon, including but not limited to the Project, described in the Master Financing Lease, subject to all easements, covenants, conditions and restrictions existing as of the date hereof. The State agrees to pay in consideration thereof the Base Rent Payments and Additional Rent therefor in accordance with the Master Financing Lease, and all other amounts required to be paid by the State thereunder. The Corporation reserves the right for any of its duly authorized representatives to enter upon the Property at any reasonable time (or in an emergency at any time) to inspect the same, or to make any repairs, improvements or changes necessary for the preservation thereof, or otherwise in connection with the Corporation's rights and obligations thereunder. The State and its authorized assignees and sublessees at all times during the term of the Master Financing Lease, may peaceably and quietly have, hold and enjoy all of the Property without suit, trouble or hindrance from the Corporation.

Appointment of Agents; Acquisition and Construction of Project; Substitution and Release of Property

Appointment of Agents. The Corporation appoints, and ratifies, approves and confirms its appointment of, the State Treasurer and the Agency pursuant to the Notice of Intent as its agents in connection with the

disbursement of the proceeds of the Certificates and the design, acquisition and/or construction and financing or refinancing of the Project, and the State Treasurer accepts and agrees to such designation and appointment.

Acquisition and Construction of Project. The State Treasurer agrees that it has caused or will cause the Project to be designed, acquired and/or constructed and financed or refinanced with all reasonable dispatch by the Agency, as agent for the Corporation, in accordance with the plans, specifications, bidding documents, and construction and other contracts approved by such Agency, and in accordance with applicable laws and regulations. The State further agrees that it will pay or cause to be paid the Project Costs solely from funds available to it pursuant to the Master Financing Lease, the Trust Agreement and the Financing Lease. This appointment of the State Treasurer and the Agency to act as agents of the Corporation in connection with the disbursement of the proceeds of the Certificates and the design, acquisition and/or construction and financing or refinancing of the Project, and all authority conferred is made and conferred irrevocably by the Corporation, and should not be terminated by any act of the State, the Agency, the Corporation or otherwise.

Changes to Project; Additions to Property. The State Treasurer may revise or consent to the revision of any Project to be acquired, constructed, financed or refinanced with proceeds of the Certificates, or the description thereof; *provided*, that:

(i) such Project as so revised must satisfy the requirements under the Master Financing Lease with respect to the substitution of Property previously acquired, constructed, financed or refinanced;

(ii) the Project Costs must not be materially reduced thereby; and

(iii) any such revision will not relieve the State or the Agency of its obligation to design, acquire, construct, finance or refinance the Project in accordance therewith and with the Financing Lease with respect thereto.

The State Treasurer has the right during the term of the Master Financing Lease, at the cost and expense of the State or the Agency, to make or permit additions, betterments and improvements to the Property, and to attach fixtures, structures and signs thereto; *provided*, that such additions, betterments and improvements and fixtures, structures and signs (i) must be constructed and installed in accordance with applicable laws and regulations, and not in violation of any easements, restrictions, conditions or covenants affecting title to the Property; and (ii) must not diminish the value, capacity or usefulness of the Property.

The State Treasurer also has the right during the term of the Master Financing Lease, without the consent of any Owners, to enter into Additional Master Financing Leases with the Corporation to finance all or any portion of the cost of such additions, betterments and improvements to the Property so long as such leases do not reduce the obligation of the State to perform its obligations under the Master Financing Lease, including without limitation its obligation to make Base Rent Payments, and will not, in an Opinion of Counsel, adversely affect the tax-exempt status of the Interest Component of Base Rent Payments evidenced and represented by the Certificates. If the State Treasurer enters into any Additional Master Financing Lease for this purpose, the Corporation may be granted an interest in the Property under an Additional Site Lease of all or any portion of the Property, which leasehold interest may be assigned to the Fiscal Agent for the benefit of owners of certificates of participation in such Additional Master Financing Lease. The occurrence of an Event of Default or Permitted Termination Event with respect to the Master Financing Lease will constitute a like event under any Additional Master Financing Lease, and the occurrence of any such like event under any Additional Master Financing Lease will constitute an Event of Default or Permitted Termination Event, as the case may be, under the Master Financing Lease. The owners of certificates of participation in any additional Master Financing Lease will be secured pari

passu with the Owners with respect to any amounts received by the Fiscal Agent with respect to the Property following the occurrence of an Event of Default or Permitted Termination Event.

Substitution of Property. After acquisition, construction, financing or refinancing of any Project, the State Treasurer may substitute and consent to the substitution, for a Property, another parcel or parcels of real property by first filing with the Fiscal Agent, as assignee of the Corporation:

(i) an Opinion of Counsel to the effect that such substitution (a) is permitted under the Master Financing Lease, and (b) in and of itself, will not adversely effect the exclusion from gross income for federal income tax purposes of the Interest Component of the Certificates;

(ii) an appraisal or other written evidence from an independent, disinterested real property appraiser acceptable to the State Treasurer and the Fiscal Agent to the effect that such substitute Property has an estimated fair rental value for the remaining term of the Financing Lease equal to or greater than the Agency Rent Payments due thereunder from time to time;

(iii) a certificate of the Agency to the effect that such substitute Property (a) is free and clear of any mortgages, deeds of trust, liens or other similar encumbrances, other than Permitted Encumbrances, and (b) is essential to the Agency's ability to carry out its governmental functions and responsibilities; and

(iv) written evidence from each Rating Agency then rating the Certificates that such substitution, in and of itself, will not result in the suspension, reduction or withdrawal of any ratings on the Certificates by such Rating Agency.

The State Treasurer, the Fiscal Agent, as assignee of the Corporation, and the Agency will execute, deliver and record such amendments and modifications to the Site Leases, the Master Financing Lease, the Master Assignment (Real Property), the Financing Leases, and such other documents, agreements and instruments, as the State Treasurer or the Fiscal Agent deems necessary or desirable in connection with such substitution.

Release of Property. After acquisition, construction, financing or refinancing of any Project, the State Treasurer may release and consent to the release of a portion of the Property leased under the Site Leases, and subleased under and pursuant to the Master Financing Lease and the related Financing Leases, by first filing with the Fiscal Agent, as assignee of the Corporation:

(i) an Opinion of Counsel to the effect that such release (a) is permitted under the Master Financing Lease, and (b) in and of itself, will not adversely effect the exclusion from gross income for federal income tax purposes of the Interest Component of the Certificates;

(ii) an appraisal or other written evidence from an independent, disinterested real property appraiser acceptable to the State Treasurer and the Fiscal Agent to the effect that the remaining portion of the Property has an estimated fair rental value for the remaining term of the Financing Lease equal to or greater than the Agency Rent Payments due from time to time thereunder;

(iii) provision by such Agency of any necessary easements, reciprocal agreements or other rights as may be necessary to provide comparable pedestrian and vehicular access, and other uses and amenities (including but not limited to water, sewer, electrical, gas, telephone and other utilities) as existed prior to such release; and

(iv) written evidence from each Rating Agency then rating the Certificates that such release, in and of itself, will not result in the suspension, reduction or withdrawal of any ratings on the Certificates by such Rating Agency.

The State Treasurer, the Fiscal Agent, as assignee of the Corporation, and the Agency will execute, deliver and record such amendments and modifications to the Site Leases, the Master Financing Lease, the Master Assignment (Real Property) or the Financing Leases, and such other documents, agreements and instruments, as the State Treasurer or the Fiscal Agent deems necessary or desirable in connection with such release.

Title to the Property

Fee title to the Property, subject to Permitted Encumbrances, and all additions, modifications, repairs and improvements thereto, remains and vests in the Agency, subject to the Lane Lease and the leasehold estates under the Site Leases, the Master Financing Lease and the Financing Leases, without any further action by the State, the Agency or the Corporation.

Assignment; Attornment

The State assigns and transfers to the Corporation the State's interest in the Financing Leases and all rentals, income and profits therefrom, including without limitation the Agency Rent Payments; *provided*, that until an Event of Default occurs and is continuing thereunder, the State may receive, collect, enjoy and apply the rents accruing under the Financing Leases as otherwise provided therein and in the Master Financing Lease. Upon the occurrence and continuance of an Event of Default thereunder, the Corporation may, at its option, either (i) terminate the respective Financing Lease; (ii) elect to receive and collect, directly from the Agency, the Agency Rent Payments and other amounts due and to become due under the Financing Leases, or (iii) elect to succeed to the State's interest in the Financing Leases and cause the Agency to attorn to the Corporation, as sublessor. The Corporation covenants to credit the State with any Agency Rent Payments received as a result of such assignment; *provided*, that the acceptance by the Corporation of any such payment should not be deemed to be (i) an attornment by the Corporation to the Agency, or by the Agency to the Corporation, or (ii) a waiver by the Corporation of any provision of the Master Financing Lease or (iii) a release of the State from any obligation or liability thereunder.

Disclaimer of Warranties

The State acknowledges and agrees that it has had adequate opportunity to inspect the Property, and that such Property, including but not limited to the structures and improvements thereon, is acceptable to the State in its present condition. The State subleases the Property in its present condition, "as is." THE CORPORATION MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AND ASSUMES NO RESPONSIBILITY, LIABILITY OR OBLIGATION, AS TO THE VALUE, DESIGN, STRUCTURAL OR OTHER CONDITION, USE, USABILITY, SUITABILITY, OCCUPANCY OR MANAGEMENT OF THE PROPERTY, AS TO THE INCOME FROM OR EXPENSE OF THE USE OR OPERATION THEREOF, AS TO TITLE TO THE PROPERTY, AS TO COMPLIANCE WITH APPLICABLE ZONING, SUBDIVISION, PLANNING, SAFETY, FIRE, HEALTH OR ENVIRONMENTAL LAWS, REGULATIONS, ORDINANCES, CODES OR REQUIREMENTS, OR AS TO COMPLIANCE WITH APPLICABLE COVENANTS, CONDITIONS OR RESTRICTIONS, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROPERTY.

Rent Payments

The State promises to pay to the Corporation, as rental for the use and occupancy of the Property, the following amounts at the following times:

Base Rent Payments. On each Base Rent Payment Date, the Base Rent Payment, consisting of a Principal Component and/or an Interest Component; and

Additional Rent. All Additional Rent incurred by the Corporation in connection with the lease of the Sites from the Agency, the sublease of the Property to the State, the execution and delivery of the Certificates, and the observance and performance of the Agreements, within thirty (30) days following receipt of an invoice from the Corporation with respect thereto which includes (i) a brief description of each item of such Additional Rent, (ii) the party to whom payment is due, (iii) the amount thereof, and (iv) such additional information as the State Treasurer may reasonably request.

Such payments of Base Rent Payments and Additional Rent for each rental payment period during the term of the Master Financing Lease should constitute the total rental due for such period, and should be paid for and in consideration of the use and occupancy and continued quiet enjoyment of the Property for such period. The Parties hereto have determined and agreed that such total rental does not exceed the fair rental value of the Property for each such rental period, given the purposes, terms and provisions of the Master Financing Lease. Anything in the Master Financing Lease to the contrary notwithstanding, the State waives any right that it may have under the laws of the State to a rebate or repayment of any portion of such rental in the event that there is substantial interference with the use or right to possession by the State of the Property or any portion thereof as a result of material damage, destruction or condemnation.

Each Base Rent Payment consists of a Principal Component and/or an Interest Component as set forth in the Master Financing Lease. Interest accrues and is calculated as provided in the Trust Agreement. Each Base Rent Payment consists of the Agency Rent Payment payable by the Agency pursuant to its State Agency Financing Lease Addenda. Each Base Rent Payment payable thereunder is required to be paid by electronic funds transfer in lawful money of the United States of America. Payments of Additional Rent should be made to or upon the order of the Corporation. Each Base Rent Payment should be applied first to the Interest Component due thereunder, and then to the Principal Component due thereunder.

The Corporation directs the State Treasurer, and the State Treasurer agrees, to make all Base Rent Payments directly to the Fiscal Agent, as assignee of the Corporation.

Sources of Payment of Base Rent Payments

State Agency Financing Lease Addenda. The State is subleasing certain Property for and on behalf of the Agency. Concurrently with the execution of the Master Financing Lease, the Agency shall execute and deliver State Agency Financing Lease Addenda pursuant to which the Agency shall agree to sublease its Property and to make Agency Rent Payments therefor. Such Agency Rent Payments shall be sufficient in the aggregate to pay, on each Base Rent Payment Date, the Base Rent Payment for the Property subleased hereunder by the State from the Corporation for and on behalf of the Agency.

The Base Rent Payments shall be payable by the State solely from the Agency Rent Payments to be made by the Agency. The obligation of the Agency to make its Agency Rent Payments shall be subject to appropriation by the State Legislature and Executive Order reduction by the Governor. The State shall not be obligated to pay the Base Rent Payments other than from appropriated funds of the Agency.

Agency Rent Payments; Deposit and Investment

Agency Rent Payments are payable on each Agency Rent Payment Date and are to be deposited in a special fund or funds maintained by the State Treasurer (the "Agency Rent Payment Fund"). The Agency Rent Payments due on each Agency Rent Payment Date are at least sufficient, in the aggregate, to make the Base Rent Payment next coming due thereunder. Amounts in the Agency Rent Payment Fund, including investment earnings thereon, are to be used and applied, *first*, to make the Base Rent Payment next coming due, *and thereafter*, but prior to the next Agency Rent Payment Date, to the extent that amounts remain in such Fund after such Base Rent Payment is made, to pay Additional Rent or for any other lawful purpose of the State Treasurer. Amounts in the Agency Rent Payment Fund must be

invested in Qualified Investments, and must be separately accounted for, but may be commingled with other moneys on deposit with the State Treasurer solely for investment purposes.

Net Lease

The Master Financing Lease should be deemed and construed to be a "triple net lease," and the State is required to pay absolutely net during the term of the Master Financing Lease the Base Rent Payments, Additional Rent and all other amounts due thereunder, without notice or demand, and free of any charges, assessments, impositions or deductions whatsoever, and without any diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against among the State, the Corporation, the Fiscal Agent, the Agency, and/or any other Person, or for any other reason; *provided*, that nothing in this subsection should be construed to release or excuse the Corporation from the observance or performance of its obligations thereunder. If the Corporation fails to observe or perform any such obligation, the State may institute such legal action and pursue such other remedies against the Corporation as the State deems necessary or desirable, including, but not limited to actions for specific performance, injunction and/or the recovery of damages.

Limited Obligation

THE MASTER FINANCING LEASE CONSTITUTES A SPECIAL, LIMITED OBLIGATION OF THE STATE PAYABLE SOLELY FROM THE SOURCES AND SUBJECT TO THE LIMITATIONS SET FORTH THEREIN. THE MASTER FINANCING LEASE DOES NOT CONSTITUTE A DEBT OR A GENERAL OBLIGATION OF THE STATE, THE CONTRACTING OF AN INDEBTEDNESS BY THE STATE, OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE, FOR PURPOSES OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION UPON DEBT OR THE CONTRACTING OF INDEBTEDNESS. THE OBLIGATION OF THE STATE TO MAKE AGENCY RENT PAYMENTS ON BEHALF OF THE AGENCY IS SUBJECT TO APPROPRIATION AND TO EMERGENCY REDUCTION IN FUNDING UNDER CERTAIN CIRCUMSTANCES, ALL AS SET FORTH IN THE MASTER FINANCING LEASE. NOTHING IN THE MASTER FINANCING LEASE SHOULD BE CONSIDERED AS OR CONSTRUED TO IMPLY A MORAL OBLIGATION ON THE PART OF THE STATE TO MAKE THE BASE RENT PAYMENTS DUE THEREUNDER.

Assignment

Concurrently with the execution and delivery of the Master Financing Lease, the Corporation will unconditionally grant, sell, assign, transfer and convey to the Fiscal Agent pursuant to the Master Assignment, without recourse,

(i) all of its rights to the Sites pursuant to the Site Leases,

(ii) all of its rights to receive the Base Rent Payments and any Additional Rent under and pursuant to the Master Financing Lease;

(iii) its right to take all actions, exercise all remedies, and give all consents under and pursuant to the Site Leases and the Master Financing Lease;

(iv) all of its remaining right, title and interest in, to and under the Site Leases, the Master Financing Lease, the Financing Leases, and in and to the Property (including any security interest therein) and any rents or profits generated therefrom; and

(v) its right of access more particularly described in the Master Financing Lease,

all in consideration for the payment by the Fiscal Agent to the State Treasurer, as agent of the Corporation, of the proceeds of the sale of the Certificates.

The State Treasurer and the Corporation acknowledge and agree that such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest, and that upon such grant, sale, assignment, transfer and conveyance, the Corporation ceases to have any rights, duties or obligations under the Site Leases, the Master Financing Lease, the Financing Leases, or with respect to the Property, and the Fiscal Agent should thereafter have all the rights, duties and obligations of the Corporation thereunder as if the Fiscal Agent had been the original party thereto, and every reference therein and in the Master Financing Lease to the Corporation is deemed and construed to refer to the Fiscal Agent, except where the context otherwise requires. Anything in the Master Financing Lease to the contrary notwithstanding, such grant, sale, assignment, transfer and conveyance does not confer any rights or impose any duties or obligations on the Fiscal Agent other than as expressly set forth in the Trust Agreement and the Master Assignment (Real Property).

Optional Prepayment

The State may at its option, and shall upon the optional prepayment of Agency Rent Payments by the Agency pursuant to its Financing Lease, prepay all or any portion of the Principal Components then unpaid, in whole or in part on any date on or after July 1, 2019, in Authorized Denominations from any source of available funds, at the times and at the Prepayment Price of 100 percent of the Principal Components prepaid, plus accrued interest, if any, evidenced and represented thereby to the Prepayment Date.

The State may at its option, and shall upon the optional prepayment of Agency Rent Payments by the Agency pursuant to a Financing Lease, provide for the payment of all or any portion of the Base Rent Payments then unpaid, in whole or in part on any date, by causing to be deposited with the Fiscal Agent, as assignee of the Corporation, (i) moneys and/or Government Obligations in accordance with the Trust Agreement; and (ii) an Opinion of Counsel to the effect such actions are permitted under the Master Financing Lease and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code.

Mandatory Prepayment; Special Prepayment

Eminent Domain; Loss of Title. The State covenants to, upon the special mandatory prepayment of Agency Rent Payments by the Agency pursuant to a Financing Lease, prepay or cause to be prepaid from eminent domain awards or sale proceeds received pursuant to the Master Financing Lease, and from the net proceeds of title insurance, if any, pursuant to the Master Financing Lease, the Principal Components of Base Rent Payments then unpaid, in whole or in part on any date, in Authorized Denominations, so that the aggregate annual Base Rent Payments for the related Property from and after such Prepayment Date are in approximately equal amounts, at a Prepayment Price equal to the sum of the Principal Components so prepaid, without premium, plus accrued interest evidenced and represented thereby to the Prepayment Date.

Insurance Proceeds. The State covenants to, upon the special optional prepayment of Agency Rent Payments by the Agency pursuant to a Financing Lease, prepay or cause to be prepaid from net insurance proceeds received pursuant to the Master Financing Lease, the Principal Components of Base Rent Payments then unpaid, in whole or in part on any date, in Authorized Denominations, so that the aggregate annual Base Rent Payments for the related Property from and after such Prepayment Date are in approximately equal amounts, at a Prepayment Price equal to the sum of the Principal Components so prepaid, without premium, plus accrued interest evidenced and represented thereby to the Prepayment Date.

Provision for Payment in Accordance with Trust Agreement. To the extent such award, sale proceeds or net proceeds are not sufficient, in whole or in part, to prepay or cause the prepayment of Principal

Components of Base Rent Payments in Authorized Denominations, such amounts must be applied by the State Treasurer to provide for the payment thereof pursuant to the Master Financing Lease.

Notice to Fiscal Agent

The State Treasurer is required to provide the Fiscal Agent, as assignee of the Corporation, with not less than 45 days' prior written notice of its intention (i) to prepay any Principal Components, which notice is required to specify the reason for such prepayment, the Prepayment Date, and the amount and the Principal Payment Dates of the Principal Components to be prepaid, and (ii) to provide for the payment of any Base Rent Payments pursuant to the Master Financing Lease.

Revision of Base Rent Payments upon Prepayment

The Principal Components and Interest Components due on each Base Rent Payment Date on and after a Prepayment Date pursuant to the Master Financing Lease may be reduced by the Fiscal Agent, as assignee of the Corporation, to reflect such prepayment, in Authorized Denominations, in such amounts and on such Base Rent Payment Dates as the State Treasurer elects in a written notice to the Fiscal Agent, as assignee of the Corporation; *provided*, that the aggregate reduction in such Principal Components is equal to the aggregate Principal Components prepaid by the State Treasurer; and *provided further*, that the reduction in Principal Components and Interest Components due on each Base Rent Payment Date is equal to the corresponding reduction in the Agency Rent Payments due on each Agency Rent Payment Date.

Discharge of Master Financing Lease

All right, title and interest of the Corporation in the Master Financing Lease and all obligations of the State thereunder cease, terminate, become void and are completely discharged and satisfied (except for the right of the Fiscal Agent, as assignee of the Corporation, and the obligation of the State to have the moneys and Government Obligations so set aside applied to make the remaining Base Rent Payments) when either:

(i) all Base Rent Payments and all Additional Rent and other amounts due thereunder have been paid in accordance therewith; or

(ii) (a) the State Treasurer has delivered a written notice to the Corporation and the Fiscal Agent of its intention to prepay all of the Base Rent Payments remaining unpaid;

(b) the State Treasurer causes to be deposited with the Fiscal Agent, as assignee of the Corporation, (1) moneys and/or Government Obligations in accordance with the Trust Agreement; and (2) an Opinion of Counsel to the effect that such actions are permitted thereunder and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code; and

(c) for so long as any Base Rent Payments remain unpaid, provision has been made satisfactory to the Corporation and the Fiscal Agent for payment of all Additional Rent, including but not limited to the fees and expenses of the Fiscal Agent.

Eminent Domain

If all of the Property subleased to the State pursuant hereto and to the Agency pursuant to a Financing Lease, or so much thereof so as to render the remainder unsuitable for the purposes for which it was used by the Agency at the time of such taking, should be taken under the power of eminent domain (or sold under threat of condemnation), the sublease of such Property pursuant to the Master Financing Lease and the Financing Lease ceases as of the day that the State and the Agency is required to vacate such Property. If less than all of such Property is taken under the power of eminent domain (or sold under threat of

condemnation), and the remainder is suitable for the purposes for which it was used by the Agency at the time of such taking, as reasonably determined by the State Treasurer, then the sublease thereof pursuant to the Master Financing Lease and the Financing Lease continues in full force and effect as to such remainder, and the Parties waive any benefits of the law to the contrary. In such event, there should be no abatement of the rental due thereunder or thereunder. So long as any Agency Rent Payments under the Financing Lease remain unpaid, any eminent domain award and any proceeds of sale under threat of condemnation for all or any part of the Property should be applied to the prepayment of Agency Rent Payments and Base Rent Payments as provided in the Financing Lease and the Master Financing Lease. Any award or proceeds in excess of the amount necessary to prepay such Agency Rent Payments due under such Financing Lease, and thereby to prepay or provide for the payment of the corresponding portion of the Base Rent Payments thereunder, should be paid to the Corporation, the State and the Agency as their respective interests may appear.

Loss of Title

If there is a loss of title to the Property subleased to the State pursuant to the Master Financing Lease and to the Agency pursuant to a Financing Lease which is insured under a policy or policies of title insurance, or so much thereof so as to render the remainder unsuitable for the purposes for which it was used by the State and the Agency at the time of such loss, the sublease of such Property pursuant to the Master Financing Lease and the Financing Lease ceases as of the day that the State and the Agency is required to vacate such Property. If there is a loss of title to less than all of such Property, and the remainder is suitable for the purposes for which it was used by the Agency at the time of such loss, as reasonably determined by the State Treasurer, then the sublease thereof pursuant to the Master Financing Lease and the Financing Lease continues in full force and effect as to such remainder, and the Parties waive any benefits of the law to the contrary. In such event, there will be no abatement of the rental due thereunder or thereunder. So long as any Agency Rent Payments under the Financing Lease remain unpaid, any payments under such title insurance policy or policies with respect to such Property are to be applied to the prepayment of Agency Rent Payments and Base Rent Payments as provided in the Financing Lease and the Master Financing Lease. Any payment in excess of the amount necessary to prepay such Agency Rent Payments due under such Financing Lease, and thereby to prepay or provide for the payment of the corresponding portion of the Base Rent Payments due thereunder, is to be paid to the Corporation, the State and the Agency as their respective interests may appear.

Damage or Destruction

If all or any portion of the Property subleased to the State pursuant to the Master Financing Lease and to the Agency pursuant to its Financing Lease is damaged or destroyed by fire or other casualty, the sublease thereof pursuant to the Master Financing Lease and the Financing Lease will not terminate, nor will there be any abatement of the rent payable thereunder and thereunder. So long as any Agency Rent Payments under the Financing Lease remain unpaid, any payments under the property insurance policy or policies with respect to such Property may be applied to the prepayment of Agency Rent Payments and Base Rent Payments as provided in the Financing Lease and the Master Financing Lease, or may be paid to the State Treasurer and applied as provided in the Trust Agreement.

Permitted Termination Event

Upon the occurrence of a Permitted Termination Event with respect to any State Agency Financing Lease Addendum, the State Treasurer shall immediately deliver written notice thereof to the Corporation, which notice shall state the election not to appropriate the necessary funds or the Executive Order reduction in State funding as set forth in said State Agency Financing Lease Addendum as the reason for cancellation thereof. The State Treasurer shall, if practicable, request a supplemental appropriation in the event that an appropriation has not been made to the Agency. In the event of an Executive Order reduction, the State

Treasurer shall determine whether or not the Property and the obligations of the Agency under the State Agency Financing Lease Addendum may be transferred to the office of the State Treasurer or to another agency or department of the State authorized under the Act to enter into financing agreements. No Permitted Termination Event following an Executive Order reduction in funding shall be effective unless or until the State Treasurer has determined that neither the State Treasurer nor any other agency or department of the State authorized under the Act to enter into financing agreements is willing and able to assume the rights and obligations of the Agency hereunder. The State Treasurer shall, at the beginning of the period for which funds have not been appropriated or for which funding has been reduced, transfer said Property to the Corporation for the remaining term of the related Site Lease for the account of the State and thereupon be released of its obligations to make payments in an amount equal to the then unpaid balance of Agency Rent Payments with respect to such Property. Upon the occurrence and effectiveness of a Permitted Termination Event, the Corporation shall be entitled to retain for the benefit of the Owners of the Certificates all sums theretofore transmitted to the Fiscal Agent, as assignee of the Corporation, by the State Treasurer. The occurrence of a Permitted Termination Event with respect to one State Agency Financing Lease Addendum shall not affect any rights, duties or obligations with respect to any other State Agency Financing Lease Addendum with respect to which no Permitted Termination Event has occurred.

Covenants and Agreements of the State

Tax-Exemption. The State shall not make any use of the proceeds of the Master Financing Lease or the Certificates or of any other amounts, regardless of the source, or of any property, and shall not take or refrain from taking any action, that would cause the Master Financing Lease or the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. The State shall not use or permit the use of the Property or any part thereof by any Person other than a "governmental unit" as that term is defined in Section 141 of the Code, in such manner or to such extent as would result in the loss of the exclusion from gross income for federal income tax purposes of the Interest Component of the Base Rent Payments under Section 103 of the Code. The State shall not make any use of the proceeds of the Master Financing Lease or the Certificates or of any other amounts, and shall not take or refrain from taking any action, that would cause the Master Financing Lease or the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code, or "private activity bonds" within the meaning of Section 141 of the Code, or "hedge bonds" within the meaning of Section 149 of the Code. To that end, for so long as any Base Rent Payments remain unpaid, the State, with respect to such proceeds and other amounts, will comply with all requirements under such Sections and all applicable regulations of the United States Department of the Treasury promulgated thereunder. The State will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the Interest Components of the Base Rent Payments will not be included in gross income of the Owners of the Certificates for federal income tax purposes under the Code, and will take no action that would result in such interest being so included. The State shall comply with the provisions of the Tax Certificate.

The State Treasurer may establish and maintain a separate account designated as the "State of Washington Certificates of Participation, Series 2009F Rebate Fund" (the "Rebate Fund"). The State shall deposit in the Rebate Fund the Rebate Requirement as provided in the Tax Certificate. Subject to the other provisions of this subsection, moneys held in the Rebate Fund are pledged to secure the rebate payments to the United States, and the State, the Agency, the Corporation, the Fiscal Agent and the Owners shall have no rights in or claim to such moneys.

Without limiting the generality of the foregoing, the State agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code. This covenant shall survive the discharge of the Master Financing Lease and the payment in full or defeasance of the Certificates. The State specifically covenants to pay or cause to be paid to the United States at the

times and in the amounts determined under this subsection, the Rebate Requirement as provided by the Tax Certificate.

Notwithstanding any provision of this subsection, if the State shall provide to the Fiscal Agent an Opinion of Counsel to the effect that any specified action required under this subsection is no longer required or that some further or different action is required to maintain the tax-exempt status of interest evidenced and represented by the Certificates, the Fiscal Agent may conclusively rely on such opinion, and the covenants of the State thereunder shall be deemed to be modified to that extent.

Duties Imposed by Law. To the extent permitted by law, the covenants, agreements and other obligations on the part of the State contained in the Master Financing Lease shall be deemed and construed to be ministerial and non-discretionary duties imposed by law, and it shall be the duty of the State and each and every public official to take such actions in the performance of the official duties of such officials to enable the State to observe and perform the covenants, agreements, terms, conditions and other obligations contained in the Master Financing Lease and in the other Series 2009F Agreements to which the State is a party to be observed and performed by the State.

Liens. The State shall not create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property or any part thereof, except for Permitted Encumbrances. The State shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time.

Assignments and Subleases. The State shall not (and shall not permit the Agency to) grant, sell, assign, pledge, transfer, convey, mortgage, pledge, sublet or otherwise dispose any of its right, title or interest in, to or under the Master Financing Lease or the Property other than to the Agency pursuant to the Financing Lease or as otherwise provided in the Master Financing Lease or therein, and any such attempted grant, sale, transfer, assignment, pledge, conveyance or disposal shall be void. The Corporation consents to the sublease of the Property pursuant to the Financing Lease. Such subleases shall be subject and subordinate to the Master Financing Lease. Such subleases shall not release or alter the obligations or liability of the State under the Master Financing Lease. Upon the occurrence and continuance of an Agency Event of Default with respect to any Property, the State Treasurer shall have the right, pursuant to the Financing Lease, to sublease all or any portion of such Property.

Performance. The State shall punctually pay the Base Rent Payments and Additional Rent in strict conformity with the terms and provisions of the Master Financing Lease, and will faithfully observe and perform all the covenants, agreements, terms, conditions and other obligations contained in the Master Financing Lease required to be observed and performed by the State. Except for Permitted Termination Events, the State will not suffer or permit any default to occur thereunder, or do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission or refraining from doing anything, would or might be ground for cancellation or termination of the Master Financing Lease.

The Corporation Not Liable. The Corporation and its directors, officers and employees shall not be liable to the State or to any other Person whomsoever for any death, injury or damage that may result to any Person or property by or from any cause whatsoever in, on, about or relating to the Property.

Accounting Records and Report. The State Treasurer will keep or cause to be kept proper accounting records in which complete and correct entries shall be made of all transactions relating to the receipt, investment, deposit, application and disbursement of the Agency Rent Payments, and such accounting

records shall be available for inspection by the Fiscal Agent, as assignee of the Corporation, or its agent duly authorized in writing at reasonable hours and under reasonable conditions.

Further Assurances. The State will preserve and protect the rights of the Corporation and the Fiscal Agent, as assignee of the Corporation, thereunder, and will warrant and defend such rights against all claims and demands of all Persons. The State Treasurer will promptly execute, make, deliver, file and record any and all further assurances, instruments and agreements, and do or cause to be done such other and further things, as may be necessary or proper to carry out the intention or to facilitate the performance of the Master Financing Lease and for the better assuring and confirming to the Corporation the rights and benefits provided to it thereunder.

Disclosure Agreement. Concurrently with the execution and delivery of the Master Financing Lease, the State Treasurer will execute and deliver the Disclosure Agreement in order to assist the Underwriter in complying with the requirements under the Rule. The State Treasurer shall comply with the requirements of the Disclosure Agreement; *provided*, that failure to so comply shall not constitute a default under the Master Financing Lease.

Events of Default

Each of the following shall constitute an "Event of Default" thereunder:

(i) Failure by the State (other than as a result of a Permitted Termination Event) to pay or cause to be paid any Base Rent Payment required to be paid thereunder at the time set forth in the Master Financing Lease; and

(ii) Failure by the State (other than as a result of a Permitted Termination Event) to observe or perform any covenant, agreement, term or condition on its part to be observed or performed thereunder, other than as set forth in paragraph (a), above, for a period of thirty (30) days after written notice from the Corporation, or from the Owners of not less than 25% in aggregate Principal Component evidenced and represented by the Certificates then Outstanding, to the State Treasurer specifying such failure and requesting that it be remedied; provided, however, that such period shall be extended for not more than sixty (60) days if such failure cannot be corrected within such period, and corrective action is commenced by the State within such period and diligently pursued until the failure is corrected; and

(iii) If the State's interest under the Master Financing Lease or any part of the Master Financing Lease shall be assigned, sublet or transferred other than as provided in the Master Financing Lease, either voluntarily or by operation of law; and

(iv) The occurrence of an Agency Event of Default.

Notwithstanding the foregoing provisions of this subheading, if by reason of *force majeure* the State is unable in whole or in part to carry out the covenants, agreements, terms and conditions on its part contained in the Master Financing Lease, the State shall not be deemed in default during the continuance of such inability. The term "*force majeure*" means the following: acts of God; strikes; lockouts or other industrial disturbances or disputes; acts of public enemies; orders or restraints of any kind of the government of the United States of America or any of its departments, agencies or officials, or of its civil or military authorities; orders or restraints of the State or of any of its departments, agencies or officials or civil or military authorities of the State; wars, rebellions, insurrections; riots; civil disorders; blockade or embargo; landslides; earthquakes; fires; storms; droughts; floods; explosions; or any other cause or event not within the control of the State.

The Corporation may, at its election, waive any default or Event of Default and its consequences thereunder and annul any notice thereof by written notice to the State Treasurer to such effect, and

thereupon the respective rights of the Parties thereunder shall be as they would have been if such default or Event of Default had not occurred.

ANYTHING HEREIN TO THE CONTRARY NOTWITHSTANDING, A PERMITTED TERMINATION EVENT SHALL NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE MASTER FINANCING LEASE.

Remedies

Whenever an Event of Default under the Master Financing Lease shall have occurred and be continuing, the Corporation shall have the following rights and remedies:

(i) *Continuation; Reentry and Reletting*. The Corporation may continue the Master Financing Lease in full force and effect, and (a) collect rent and other amounts as they become due thereunder, (b) enforce every other term and provision of the Master Financing Lease to be observed or performed by the State, and (c) exercise any and all rights of entry and reentry upon the Property. In the event that the Corporation does not elect to terminate the Master Financing Lease in the manner provided pursuant to paragraph (ii) of this Subheading, the State agrees to observe and perform all terms and provisions in the Master Financing Lease to be observed or performed by it, and, if the Property is not relet, to pay the full amount of the rent and other amounts due thereunder for the term of the Master Financing Lease, or, if the Property or any part thereof is relet, to pay any deficiency that results therefrom, in each case at the same time and in the same manner as otherwise provided in the Master Financing Lease, and notwithstanding any reentry or reletting by the Corporation, or suit in unlawful detainer or otherwise brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of all or any part of the Property. Should the Corporation elect to re-enter or obtain possession of all or any part of the Property, the State irrevocably appoints the Corporation as the State's agent and attorney-in-fact (a) to relet the Property, or any part thereof, from time to time, either in the name of the Corporation or otherwise, upon such terms and conditions and for such use and period as the Corporation may determine in its discretion, (b) to remove all persons in possession thereof and all personal property whatsoever situated upon the Property, and (c) to place such personal property in storage in any warehouse or other suitable place for the State in the county in which such personal property is located, for the account of and at the expense of the State. The State shall be liable for, and agrees to pay the Corporation, the Corporation's costs and expenses in connection with reentry of the Property, removal and storage of any personal property, and reletting of the Property. The State agrees that the terms of the Master Financing Lease constitute full and sufficient notice of the right of the Corporation to reenter and relet the Property or any part thereof without effecting a surrender or termination of the Master Financing Lease. Termination of the Master Financing Lease upon an Event of Default shall be effected solely as provided in paragraph (ii) of this Subheading. The State further waives any right to, and releases, any rental obtained by the Corporation upon reletting in excess of the rental and other amounts otherwise due thereunder.

(ii) *Termination*. The Corporation may terminate the Master Financing Lease, but solely upon written notice by the Corporation to the State Treasurer of such election. No notice to pay rent, notice of default, or notice to deliver possession of the Property or of any part thereof, nor any entry or reentry upon the Property or any part thereof by the Corporation, nor any proceeding in unlawful detainer or otherwise brought by the Corporation for the purpose of effecting such reentry or obtaining possession, nor any other act shall operate to terminate the Master Financing Lease, and no termination of the Master Financing Lease on an account of an Event of Default shall be or become effective by operation of law or acts of the Parties hereto or otherwise, unless and until such notice of termination shall have been given by the Corporation. The State agrees

that no surrender of the Property or any part thereof, nor any termination of the Master Financing Lease by the State shall be valid or effective in any manner or for any purpose whatsoever unless such notice of termination shall have been given by the Corporation. Upon such termination, the Corporation may (a) reenter the Property or any part thereof and remove all persons in possession thereof and all personal property whatsoever situated upon the Property, and (b) to place such personal property in storage in any warehouse or other suitable place for the State in the county in which such personal property is located, for the account of and at the expense of the State. Upon such termination, the State's right to possession of the Property shall terminate, and the State shall surrender possession thereof to the Corporation. In the event of such termination, the State shall remain liable to the Corporation for damages in an amount equal to the rent and other amounts that would have been due thereunder for the balance of the term of the Master Financing Lease, less the net proceeds, if any, of any reletting of the Property or any part thereof by the Corporation subsequent to such termination, after deducting the expenses incurred by the Corporation in connection with any such reentry, removal and storage of personal property, and reletting. The Corporation shall be entitled to collect damages from the State on the respective Base Rent Payment Dates, or alternatively, the Corporation may accelerate the State's obligations under the Master Financing Lease and recover from the State (a) the worth at the time of award of the unpaid rental which had been earned at the time of termination, (b) the worth at the time of award of the amount by which the unpaid rental which would have been earned after the termination until the time of award exceeds the amount of such rental loss that the State proves could have been reasonably avoided, (c) the worth at the time of award by which the unpaid rental for the balance of the term of the Master Financing Lease after the time of award exceeds the amount of rental loss that the State proves could reasonably have been avoided, and (d) any other amount necessary to compensate the Corporation for all the detriment proximately caused by the State's failure to perform its obligations thereunder, or which in the ordinary course would be likely to result therefrom, including but not limited to the Corporation's expenses in connection with reentry of the Property, removal and storage of any personal property, and reletting of the Property. The worth at the time of award shall be computed using a discount rate equal to the composite Interest Component evidenced and represented by the Certificates.

(iii) *Other Remedies*. In addition to the other remedies set forth in this Subheading, upon the occurrence and continuance of an Event of Default, the Corporation shall be entitled to proceed to protect and enforce the rights vested in them by the Master Financing Lease or by law. The terms and provisions of the Master Financing Lease and the duties and obligations of the State thereunder, and the officers and employees thereof, shall be enforceable by the Corporation by an action at law or in equity, for damages or for specific performance, or for writ of mandate, or by other appropriate action, suit or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Corporation shall have the right to bring the following actions:

(a) *Accounting.* By action or suit in equity to require the State or the Agency and its officers and employees to account as the trustee of an express trust;

(b) *Injunction.* By action or suit in equity to enjoin the violation of the rights of the Corporation.

(c) *Mandate.* By writ of mandate or other action, suit or proceeding at law or in equity to enforce the Corporation's rights against the State or the Agency and its officers and employees, and to compel the State to perform and carry out its duties and obligations under the law and its covenants and agreements with the Corporation as provided in the Master Financing Lease.

In the event that the Corporation shall prevail in any action, suit or proceeding brought to enforce any of the terms or provisions of the Master Financing Lease, the State shall be liable for the reasonable attorneys' fees of the Corporation in connection therewith.

The State waives any and all claims for damages caused or which may be caused by the Corporation in reentering and taking possession of the Property or any part thereof as provided in the Master Financing Lease, and all claims for damages that may result from the destruction of or injury to the Property or any part thereof, and all claims for damages to or loss of any personal property that may be in or upon the Property.

ANYTHING HEREIN TO THE CONTRARY NOTWITHSTANDING, IF THE EVENT OF DEFAULT CONSISTS OF AN AGENCY EVENT OF DEFAULT, THE REMEDIES OF THE CORPORATION SHALL BE LIMITED TO THOSE SET FORTH IN THE RELATED FINANCING LEASE AND THE MASTER FINANCING LEASE.

No Remedy Exclusive; Non-Waiver

No remedy conferred upon or reserved to the Corporation thereunder or under applicable law is intended to or shall be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Master Financing Lease or now or existing at law or in equity. No delay or omission to exercise any right or remedy accruing upon a default or an Event of Default thereunder shall impair any such right or remedy or shall be construed to be a waiver of such default or Event of Default, but any such right or remedy may be exercised from time to time and as often as may be deemed necessary or expedient. In order to exercise any remedy reserved to the Corporation thereunder, it shall not be necessary to give any notice, other than such notice as may be required thereunder. A waiver by the Corporation of any default or Event of Default thereunder shall not constitute a waiver of any subsequent default or Event of Default thereunder, and shall not affect or impair the rights or remedies of the Corporation in connection with any such subsequent default or Event of Default.

No acceptance of less than the full amount of a rental payment due thereunder shall constitute an accord and satisfaction or compromise of any such payment unless the Corporation specifically agrees to such accord and satisfaction or compromise in writing.

Default by the Corporation

Anything in the Master Financing Lease to the contrary notwithstanding, the Corporation shall not be in default in the observance or performance of any of the covenants, agreements, terms or conditions to be observed or performed by it thereunder unless and until the Corporation shall have failed to observe or perform such covenant, agreement, term or condition for a period of sixty (60) days after written notice by the State Treasurer to the Corporation specifying such failure and requesting that it be remedied; *provided, however*, that such period shall be extended for such additional time as shall be reasonably required to correct such failure if corrective action is commenced by the Corporation within such period and diligently pursued until the failure is corrected.

Term

The term of the Master Financing Lease shall commence on the Dated Date, and shall end on the final Principal Payment Date thereunder, unless such term is extended or sooner terminated as provided in the Master Financing Lease. If on such date, all amounts due thereunder shall not have been paid or the payment thereof duly provided for pursuant to the Master Financing Lease, then the term of the Master Financing Lease shall be extended until ten (10) days after all amounts due thereunder shall have been paid or the payment thereof so provided for, except that the term of the Master Financing Lease shall in no event be extended beyond the date five years after such final Principal Payment Date. If prior to the

final Principal Payment Date thereunder, all amounts due thereunder shall have been paid or the payment thereof so provided for, the term of the Master Financing Lease shall end ten (10) days thereafter or ten (10) days after written notice by the State Treasurer to the Corporation, whichever is earlier.

Anything in the Master Financing Lease to the contrary notwithstanding, the lease of any parcel of Property pursuant to the Master Financing Lease shall terminate when all Agency Rent Payments and other amounts due under the respective Financing Lease have been paid or the payment thereof duly provided for pursuant thereto.

Termination

The State agrees, upon the termination or expiration of the Master Financing Lease as to any parcel of Property, to quit and surrender such Property in the same good order, condition and repair as the same was in at the time of commencement of the term thereunder, except for acts of God, reasonable wear and tear, and any actions by the Agency in accordance therewith and with the Financing Lease that affect the condition of such Property. The State agrees that any permanent improvements and structures existing upon the Property at the time of such termination or expiration of the applicable Site Lease shall remain thereon. The State shall thereafter execute, acknowledge and deliver to the Corporation such instruments of further assurance as in the reasonable opinion of the Corporation are necessary or desirable to confirm the Corporation's leasehold right, title and interest in and to such Property.

TRUST AGREEMENT

Project Fund

The State Treasurer shall establish and maintain the Project Fund as agent for the Corporation. The moneys in the Project Fund shall be held by the State Treasurer in trust for the benefit of the Owners and applied to the payment of the Project Costs (including reimbursement to the Corporation, or to the State Treasurer or the Agency, in its capacity as agent of the Corporation, for any such costs theretofore paid by such Party), including but not limited to the Costs of Issuance. Moneys in the Project Fund shall be invested by the State Treasurer in Qualified Investments. Disbursements by the State Treasurer from the Project Fund to pay or reimburse the Project Costs of the related Property or the Project to be acquired, constructed, financed or refinanced by the Agency shall not exceed the amount in the Project Fund for the Agency, as determined by the State Treasurer. When the Project and the related Property have been acquired, constructed, financed, or refinanced and all of the Project Costs and Costs of Issuance have been paid, the State Treasurer shall transfer any remaining balance in the Project Fund to the Agency Rent Payment Fund.

State Payments; Funds and Accounts; Investments

State Payments Held in Trust. The State Payments are irrevocably pledged and shall be applied to pay the Principal Component and Interest Component evidenced and represented by the Certificates when due, and shall not be used or applied for any other purpose while any of the Certificates remain Outstanding. The pledge shall constitute a first and exclusive lien on and security interest in the State Payments for the benefit of the Owners of the Certificates.

All State Payments shall be paid directly by the State Treasurer to the Fiscal Agent, as assignee of the Corporation, and if received by the Corporation at any time shall be deposited by the Corporation with the Fiscal Agent within one (1) Business Day after the receipt thereof. All State Payments shall be immediately deposited by the Fiscal Agent in the appropriate funds provided in the Trust Agreement, whereupon they shall be applied immediately to the payment or prepayment, as appropriate, of

Certificates except as otherwise expressly provided in the Trust Agreement, but if for any reason not so applied, held in trust by the Fiscal Agent in such fund for the benefit of the Owners from time to time.

Deposit of State Payments. The Fiscal Agent agrees to establish, maintain and hold in trust the Certificate Fund for so long as any Certificates remain Outstanding. The Fiscal Agent shall deposit all State Payments, including prepayments, in the following Accounts within the Certificate Fund, each of which the Fiscal Agent agrees to establish and maintain, at the times, in the manner and in the order of priority as set forth below, and the moneys in each of such Accounts shall be disbursed only for the purposes and uses authorized.

(i) *Interest Account*. On each Interest Payment Date, the Fiscal Agent shall deposit in the Interest Account that amount of moneys evidencing the Interest Components due on such Interest Payment Date. Moneys in the Interest Account shall be withdrawn and used by the Fiscal Agent solely for the purpose of paying the interest evidenced and represented by the Certificates due and payable on such Interest Payment Date.

(ii) *Principal Account*. On each Principal Payment Date, the Fiscal Agent shall deposit in the Principal Account that amount of moneys evidencing the Principal Components due on such Principal Payment Date. Moneys in the Principal Account shall be withdrawn and used by the Fiscal Agent solely for the purpose of paying the principal evidenced and represented by the Certificates due and payable on such Principal Payment Date.

(iii) *Prepayment Account*. On each date on which the State Treasurer makes a prepayment of Principal Components at the Prepayment Price therefor (and related payments of Interest Components, if any) pursuant to the Master Financing Lease, the Fiscal Agent shall deposit in the Prepayment Account the amount of such prepayment and related payments. Moneys in the Prepayment Account shall be withdrawn and used by the Fiscal Agent solely for the purpose of paying the Prepayment Price evidenced and represented by Certificates prepaid on such date pursuant to the Trust Agreement and the accrued interest, if any, evidenced and represented by the Certificates so prepaid.

Application of Insurance Proceeds and Eminent Domain Awards. The proceeds of any casualty insurance with respect to any of the Property, if received by the State or the Agency, shall immediately be paid to the Fiscal Agent. Within ninety (90) days of payment of such proceeds to the Fiscal Agent, the Agency shall notify the Fiscal Agent in writing as to whether it elects to repair or replace such Property. In the event that the Agency elects to repair or replace such Property, such amounts shall be disbursed by the Fiscal Agent to pay the costs of such repair or replacement. In the event that the Agency elects not to repair or replace the property damaged, destroyed or taken, the Fiscal Agent shall transfer all such amounts to the Prepayment Account and apply such amounts to the prepayment of Outstanding Certificates pursuant to the Trust Agreement at the earliest possible Prepayment Date. Any eminent domain award, the proceeds of any sale under threat of condemnation, and the net proceeds of any title insurance in connection with a loss of title with respect to any Property, if received by the State or the Agency, shall immediately be paid to the Fiscal Agent. The Fiscal Agent shall transfer all such amounts to the Prepayment Account and apply such amounts to the prepayment of Outstanding Certificates pursuant to the Trust Agreement at the earliest possible Prepayment Date. To the extent that such amounts are not sufficient, in whole or in part, to prepay Principal Components evidenced and represented by the Certificates in Authorized Denominations, such amounts shall be applied to provide for the payment thereof pursuant to the Trust Agreement.

Investment of Moneys. All moneys in any of the funds or accounts established and maintained by the Fiscal Agent pursuant to the Trust Agreement shall be invested by the Fiscal Agent, at the Written

Direction of the State Treasurer, solely in Qualified Investments. The written investment instruction to the Fiscal Agent shall contain a statement that such investments are Qualified Investments as required by the Trust Agreement. In the absence of written investment instructions directing the Fiscal Agent by noon of the Business Day preceding the day when investments are to be made, the Fiscal Agent is directed to invest available funds in Qualified Investments described in the Trust Agreement, until such written instruction is received by the Fiscal Agent.

Qualified Investments may be purchased at such prices as the Fiscal Agent may in its discretion determine or as may be directed by the State Treasurer. All investment instructions to the Fiscal Agent shall be subject to the limitations set forth in the Trust Agreement and such additional limitations or requirements consistent with the foregoing as may be established by the State Treasurer.

Moneys in all funds and accounts maintained by the Fiscal Agent shall be invested in Qualified Investments maturing not later than the date on which such moneys will be required for the purposes specified in the Trust Agreement. Notwithstanding any provisions in the Trust Agreement to the Contrary, any moneys held for the payment of Certificates pursuant to the Trust Agreement, shall be invested only at the Written Direction of the State Treasurer and only in Government Obligations (or in shares of a taxable government money market fund restricted to Government Obligations rated in the highest rating category applicable to such funds by at least one Rating Agency) which mature not later than the date on which it is estimated that such moneys will be required to pay such Certificates (but in any event maturing in not more than thirty (30) days).

All interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Trust Agreement shall be deposited in the fund or account which gave rise to the investment earnings. For the purpose of determining the amount in any fund or account, all Qualified Investments credited to such fund or account shall be valued at the lesser of cost or par value.

Subject to any written instruction from the State Treasurer pursuant to the Trust Agreement, moneys in any and all funds and accounts may be commingled for investment purposes; *provided*, that the Fiscal Agent shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in the Trust Agreement. The Fiscal Agent and its affiliates may act as principal or agent in the making or disposing of any investment. The Fiscal Agent may sell or present for redemption any Qualified Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Qualified Investment is credited, and the Fiscal Agent shall not be liable or responsible for any loss resulting from such investment or disposition. The Fiscal Agent and its affiliates may act as sponsor, advisor or depository with regard to any Qualified Investments.

Non-Presentment of Certificates. In the event that any Certificates shall not be presented for payment when the principal or Prepayment Price evidenced and represented thereby becomes due, either at a Principal Payment Date, Prepayment Date or otherwise, if moneys sufficient to pay such principal or Prepayment Price shall have been deposited in the Principal Account or the Prepayment Account, as applicable, all liability of the Fiscal Agent and the State to the Owner thereof for payment with respect to such Certificate shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Fiscal Agent to hold such moneys (subject to the Trust Agreement), without liability for interest thereon, for the benefit of the Owner of such Certificate who shall thereafter be restricted exclusively to such moneys, for any claim of whatever nature on his or her part under the Trust Agreement or on or with respect to such Certificate.

Repayment to State Treasurer. When there are no longer any Certificates Outstanding, and all fees, charges and expenses of the Fiscal Agent and any Paying Agents have been paid or provided for, and all

expenses of the Corporation and the State Treasurer relating to the Master Financing Lease and the Trust Agreement have been paid or provided for, and all other amounts payable under the Trust Agreement and under the Master Financing Lease have been paid, and the Trust Agreement has been discharged and satisfied, the Fiscal Agent shall pay to the State Treasurer any amounts remaining in any fund or account established and held under the Trust Agreement.

Covenants of the Corporation, the State and the Fiscal Agent

Compliance with Trust Agreement. The Fiscal Agent will not execute or deliver any Certificates in any manner other than in accordance with the provisions of the Trust Agreement. The Corporation, the State and the Fiscal Agent will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Trust Agreement required to be complied with, kept, observed and performed by each of them.

Compliance with and Amendment of the Master Financing Lease. The Corporation, the State and the Fiscal Agent, as assignee of the Corporation, will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Master Financing Lease required to be complied with, kept, observed and performed by each of them, and the Fiscal Agent will, to the extent required under the Trust Agreement, enforce such agreement against the State in accordance with its terms.

The State will not alter, amend or modify the Master Financing Lease without the prior written consent of the Fiscal Agent. Such consent of the Fiscal Agent shall be given only (i) if the Fiscal Agent receives an Opinion of Counsel to the effect that such alterations, amendments or modifications will not have a material adverse effect on the interests of the Owners of the Certificates, or (ii) if the Fiscal Agent first obtains the written consent of the Owners of a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding to such alterations, amendments or modifications; *provided*, that no such alteration, amendment or modification shall reduce the amount or extend the time for payment of any State Payment without the prior written consent of the Owners of the Certificates evidencing and representing any portion thereof.

Other Liens. So long as any Certificates are Outstanding, the Corporation, the State and the Fiscal Agent will not create or suffer to be created any pledge of, lien on or security interest in the State Payments other than the pledge and lien of the Trust Agreement and security interest under the Trust Agreement.

Prosecution and Defense of Suits. The State will defend against every action, suit or other proceeding at any time brought against the Corporation, the Fiscal Agent or any Owner upon any claim arising out of the receipt, deposit or disbursement of any of the State Payments or involving the rights or obligations of the Corporation, the Fiscal Agent or any Owner under the Trust Agreement; provided, however, that the Corporation, the Fiscal Agent or any Owner, at its election and at its sole cost and expense, may appear in and defend any such action, suit or other proceeding.

Accounting Records and Statements. The Fiscal Agent will keep proper accounting records in accordance with corporate trust accounting standards in which complete and correct entries shall be made of all transactions relating to the receipt, investment, deposit, application and disbursement of the State Payments, and such accounting records shall be available for inspection by the State Treasurer or any Owner or agent duly authorized in writing at reasonable hours and under reasonable conditions. Not later than December 1 in each year, commencing on December 1, 2009, and continuing for so long as any Certificates are Outstanding, the Fiscal Agent will furnish, or cause to be furnished to the State Treasurer and any Owner who may so request (at the expense of such Owner) a complete statement covering the

receipts, investment, deposits, application and disbursements of the State Payments for the twelve-month period ending on the preceding July 1.

Such records shall specify the fund or account to which each investment (or portion thereof) held pursuant to the Trust Agreement is to be allocated and shall set forth, in the case of each Qualified Investment, (i) its purchase price, (ii) identifying information, including par amount, coupon rate, and payment dates, (iii) the amount received at maturity or its sale price, as the case may be, (iv) the amounts and dates of any payments made with respect thereto, and (v) such other documentation as is required by the State Treasurer in writing.

Recording and Filing. The Fiscal Agent, upon receipt of a Written Request of the State Treasurer, shall file, record, register, renew, refile and rerecord all such documents, including but not limited to the Site Leases, the Master Financing Lease, the Financing Leases, and the Master Assignment (Real Property), as may be required by law in order to maintain a security interest in the State Payments, all in such manner, at such times and in such places as may be required and to the extent permitted by law in order to fully perfect, preserve and protect the security of the Owners and the rights and interests of the Fiscal Agent; *provided*, *however*, that the Fiscal Agent will not be required to execute a special or general consent to service of process, or to qualify as a foreign corporation in connection with any such filing, recording, registration, refiling or rerecording in any jurisdiction in which it is not now so subject.

Further Assurances. Whenever and so often as requested to do so by the Fiscal Agent or any Owner, the Corporation and the State Treasurer will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or desirable in order to further and more fully vest in the Fiscal Agent and the Owners all advantages, benefits, interests, powers, privileges and rights conferred upon them and by the Master Financing Lease.

Events of Default; Remedies

Events of Default; Remedies; Waiver. If an Event of Default shall occur and be continuing, then such Event of Default shall constitute a default under the Trust Agreement, and in each and every such case during the continuance of such Event of Default, the Fiscal Agent may, and upon the written request of the Owners of not less than a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding and receipt of indemnity satisfactory to it shall, exercise the remedies provided to the Corporation and the Fiscal Agent, as assignee of the Corporation, under the Trust Agreement and under the Master Financing Lease.

The Fiscal Agent may, in its discretion, waive any default or Event of Default and its consequences under the Trust Agreement and annul any notice thereof by written notice to the State Treasurer to such effect, and thereupon the respective rights of the Parties under the Trust Agreement shall be as they would have been if such default or Event of Default had not occurred.

Other Remedies of the Fiscal Agent. The Fiscal Agent may, and upon the written request of the Owners of not less than a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding and receipt of indemnity satisfactory to it, shall:

(i) by mandamus or other action or proceeding or suit, action or proceeding at law or in equity enforce its rights against the State or the Agency or any officer or employee thereof, and to compel the State or the Agency or any such officer or employee to perform or carry out its duties under law and the agreements and covenants required to be performed by it or him or her contained in the Trust Agreement and in the Master Financing Lease;

(ii) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Fiscal Agent; or

(iii) by suit in equity upon the happening of any default under the Trust Agreement to require the State or the Agency and its officers and employees to account as the trustee of an express trust.

Application of Moneys. If an Event of Default shall have occurred and be continuing, all moneys received by the Fiscal Agent shall be applied, first, to the payment of the reasonable costs and expenses incurred by the Fiscal Agent and the Owners to declare such default (including but not limited to the reasonable fees and expenses of their counsel and agents); second, to the payment of the Interest Components evidenced and represented by the Certificates accrued to the date of application thereof *pro rata* among the Owners entitled thereto; third, to the payment of the Principal Components evidenced and represented by the Certificates and the Prepayment Price, if any, then due under the Trust Agreement *pro rata* among the Owners entitled thereto; and fourth, when no Certificates remain Outstanding, to pay or reimburse the State for its costs and expenses, including reasonable attorneys' fees, incurred in connection with the Certificates, the Master Financing Lease, the Financing Leases, and the Trust Agreement.

Non-Waiver. A waiver of any default or breach of duty or contract by the Fiscal Agent shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Fiscal Agent to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Fiscal Agent by law or by such article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Fiscal Agent.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Fiscal Agent, the Fiscal Agent, the Corporation and the State Treasurer shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy in the Trust Agreement conferred upon or reserved to the Fiscal Agent is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law.

Fiscal Agent May Enforce Claims Without Possession of Certificates. All rights of action and claims under the Trust Agreement or the Certificates may be prosecuted and enforced by the Fiscal Agent without the possession of any of the Certificates or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Fiscal Agent shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Fiscal Agent, its agents and counsel, be for the ratable benefit of the Owners of the Certificates in respect of which such judgment has been recovered.

Limitation on Actions by Owners. The Owners of not less than a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding shall have the right to direct the method and place of conducting any proceeding or remedy available to the Fiscal Agent, or exercising any trust or power conferred on the Fiscal Agent, under the Trust Agreement or under the Master Financing Lease in connection with the enforcement of the covenants, agreement, terms, and conditions of the Trust Agreement and thereof; *provided*, that any such direction shall not be contrary to law, the

Trust Agreement or the Master Financing Lease, and is not unduly prejudicial to the interest of the Owners not joining in such direction; and *provided further*, that the Fiscal Agent may take any other action which it deems necessary or appropriate and not inconsistent with such direction.

No Owner shall have the right to institute any action, suit or proceeding for the enforcement of the Trust Agreement or of the Master Financing Lease, or to pursue any remedy available under the Trust Agreement or under such Master Financing Lease, unless:

(i) the Fiscal Agent shall have been given written notice of an Event of Default by such Owner;

(ii) the Owners of at least a majority in aggregate Principal Component evidenced and represented by the Certificates then Outstanding respecting which there has been an Event of Default shall have requested the Trustee, in writing, to exercise the powers granted by the Trust Agreement or the Master Financing Lease, or to institute such action, suit or proceeding, or to pursue such remedy in it or their name or names;

(iii) the Fiscal Agent shall have been offered indemnity satisfactory to it against its costs, expenses and liabilities in connection therewith; and

(iv) the Fiscal Agent shall have failed to comply with such request within sixty (60) days, or such shorter period as shall be reasonable under the circumstances.

No Liability by the Corporation to the Owners. Except for the observance and performance of the agreements and covenants required to be observed and performed by it contained in the Trust Agreement, the Corporation shall not have any obligation or liability to the Owners with respect to the Trust Agreement, or the payment when due of the State Payments by the State, or with respect to the observance or performance by the State of the other agreements and covenants required to be observed and performed by the State contained in the Master Financing Lease or in the Trust Agreement, or with respect to preparation, execution, delivery, or transfer of the Certificates or the disbursement of the State Payments by the Fiscal Agent to the Owners, or with respect to the observance or performance by the Fiscal Agent of any agreements, covenants, terms or obligations required to be performed or observed by it contained in the Trust Agreement.

No Liability by the State to the Owners. Except for the payment when due of the State Payments and the observance and performance of the other agreements and covenants required to be observed and performed by it contained in the Master Financing Lease and in the Trust Agreement, the State shall not have any obligation or liability to the Owners with respect to the Trust Agreement, or the preparation, execution, delivery or transfer of the Certificates or the disbursement of the State Payments by the Fiscal Agent to the Owners, or with respect to the observance or performance by the Fiscal Agent of any agreements, covenants, terms or obligations required to be observed or performed by it contained in the Trust Agreement.

No Liability by the Fiscal Agent to the Owners. Except as expressly provided in the Trust Agreement, the Fiscal Agent shall not have any obligation or liability to the Owners with respect to the payment when due of the State Payments by the State, with respect to the observance or performance by the State of the other agreements and covenants required to be observed and performed by it contained in the Master Financing Lease or in the Trust Agreement or with respect to the observance or performance by the Corporation of the agreements and covenants required to be observed and performed by it contained in the Trust Agreement.

Amendment or Supplement of Trust Agreement

Amendment or Supplement; Consents. The Trust Agreement and the rights and obligations of the State, the Owners, the Fiscal Agent or any Paying Agent under the Trust Agreement may be amended or

supplemented at any time as provided in the Appendix of the Trust Agreement. No such amendment or supplement shall:

(i) extend the stated Principal Payment Date of any Certificate, or reduce the rate of interest evidenced and represented thereby, or extend the time of payment of such interest, or reduce the amount of the Principal Component evidenced and represented thereby, or reduce any Prepayment Price evidenced and represented thereby, without the prior written consent of the Owner of the Certificate so affected; or

(ii) reduce the percentage of Owners whose consent is required for the execution of any amendment of the Trust Agreement or supplement hereto; or

(iii) modify any of the rights or obligations of the Fiscal Agent or any Paying Agent without its prior written consent thereto.

Disqualified Certificates. Certificates owned or held by or for the account of the State (but excluding Certificates held in any pension or retirement fund of the State) or the Agency shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided in the Trust Agreement, and shall not be entitled to consent to or take any other action provided in the Trust Agreement, and the Fiscal Agent may adopt appropriate regulations to require each Owner, before consent provided for in the Trust Agreement shall be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified as provided in the Trust Agreement.

Endorsement or Replacement of Certificates After Amendment or Supplement. After the effective date of any action taken as provided above, the Fiscal Agent may determine that the Certificates may bear a notation by endorsement in a form approved by the Fiscal Agent as to such action, and in that case upon demand of the Owner of any Outstanding Certificate and presentation of such Owner's Certificate for such purpose at the Principal Office of the Fiscal Agent a suitable notation as to such action shall be made on such Certificate. If the Fiscal Agent shall so determine, new Certificates so modified as in the opinion of the Fiscal Agent shall be necessary to conform to such action shall be prepared, and in that case upon demand of the Owner of any Outstanding Certificates such new Certificates shall be exchanged at the Principal Office of the Fiscal Agent without cost to each Owner for Certificates then Outstanding upon surrender of such Outstanding Certificates.

Amendment by Mutual Consent. The amendment provisions of the Trust Agreement shall not prevent any Owner from accepting any amendment to the particular Certificates held by it; *provided*, that due notation thereof is made on such Certificates.

Defeasance of Certificates; Discharge of Trust Agreement

Discharge of Trust Agreement. When the obligations of the State under the Master Financing Lease shall cease (except for the right of the Fiscal Agent and the obligation of the State to have the money and Qualified Investments referenced therein applied to the payment of State Payments as therein set forth), then and in that case the obligations created by the Trust Agreement shall thereupon cease, terminate, become void and be completely discharged except for the right of the Owners and the obligation of the Fiscal Agent to apply such moneys and Qualified Investments to the payment of the Certificates as in the Trust Agreement set forth and the right of the Fiscal Agent to collect any fees or expenses due under the Trust Agreement. The Fiscal Agent shall turn over to the State Treasurer, as an overpayment of State Payments, any surplus in the Certificate Fund and all balances remaining in any other funds or accounts other than moneys and Qualified Investments held for the payment of the Certificates on the Principal Payment Dates or Prepayment Dates thereof, which moneys and Qualified Investments shall continue to be held by the Fiscal Agent in trust for the benefit of the Owners and shall be applied by the Fiscal Agent to the payment, when due, of the principal, Prepayment Price and interest evidenced and represented by

the Certificates, and after such payment, the Trust Agreement shall become void. The Fiscal Agent shall thereafter execute and deliver to the State such other documents and instruments as may be necessary or desirable to evidence such discharge and satisfaction of the Trust Agreement.

Defeasance of Certificates. Any Outstanding Certificates shall be deemed to have been paid with the meaning and effect expressed in the immediately preceding paragraph if there shall be irrevocably deposited and held in trust by the Fiscal Agent moneys or Qualified Investments in the amount necessary to pay or prepay the principal or Prepayment Price and interest evidenced and represented thereby as provided in the Trust Agreement.

If moneys or Qualified Investments are deposited with and held by the Fiscal Agent as thereinabove provided, the Fiscal Agent shall within thirty (30) days after such moneys or Qualified Investments shall have been deposited with it, mail a notice, first class postage prepaid, to the Owners of the Certificates that have been defeased at the addresses listed on the registration books kept by the Fiscal Agent pursuant to the Trust Agreement, setting forth (i) the date or dates fixed for payment or prepayment of the Certificates, (ii) a description of the moneys or Qualified Investments so held by it, and (iii) that such Certificates have been defeased and are no longer deemed to be Outstanding under the Trust Agreement, and/or that the Trust Agreement has been released and discharged in accordance with the provisions of the Trust Agreement.

Deposit of Money or Securities with Fiscal Agent. Whenever in the Trust Agreement or the Master Financing Lease it is provided or permitted that there be deposited with or held in trust by the Fiscal Agent money or securities (certified to be sufficient by a report of an independent certified public accountant or firm of accountants, or an independent financial advisor or consultant or firm of such advisors or consultants) in the necessary amount to pay or prepay the principal and interest evidenced and represented by all or a portion of the Certificates, the money or securities to be so deposited or held may include money or securities held by the Fiscal Agent in the funds and accounts established pursuant to the Trust Agreement and shall be:

(i) lawful money of the United States of America in an amount equal to the principal amount evidenced and represented by such Certificates and all unpaid interest evidenced and represented thereby to the respective Principal Payment Dates thereof, except that, in the case of Certificates which are to be prepaid prior to their respective Principal Payment Dates and in respect of which notice of such prepayment shall have been given as in the Trust Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice, the amount to be deposited or held shall be the Prepayment Price plus accrued interest to such date of prepayment, if any, evidenced and represented by such Certificates; or

(ii) Government Obligations, the principal of and interest on which when due will provide money sufficient, without reinvestment, to pay the principal or Prepayment Price, and accrued interest to the Principal Payment Date or to the Prepayment Date, as the case may be, evidenced and represented by the Certificates to be paid or prepaid, as such amounts become due; *provided* that, in the case of Certificates which are to be prepaid prior to the Principal Payment Date thereof, notice of such prepayment shall have been given as in the Trust Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice;

further provided, in each case, that the Fiscal Agent shall have been irrevocably instructed (by the terms of the Trust Agreement and the Master Financing Lease or by Written Request of the State Treasurer) to apply such money to the payment of such principal, Prepayment Price and interest, if any, evidenced and represented by such Certificates.

Unclaimed Moneys. Any moneys held by the Fiscal Agent in trust for the payment and discharge of the principal, Prepayment Price or interest evidenced and represented by any of the Certificates which remain unclaimed for two (2) years after the date when the principal, Prepayment Price or interest evidenced and represented by such Certificates have become payable, shall at the Written Request of the State Treasurer be repaid by the Fiscal Agent to the State Treasurer as its property free from trust, and the Fiscal Agent shall thereupon be released and discharged with respect thereto and the Owners shall look only to the State Treasurer for the payment of the principal, Prepayment Price or interest evidenced and represented by such Certificates.

Miscellaneous

Funds and Accounts. Any fund required to be established and maintained in the Trust Agreement by the Fiscal Agent or the State Treasurer may be established and maintained in the accounting records of the Fiscal Agent or the State Treasurer, respectively, either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof, and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with prudent accounting practice and with due regard for the protection of the security of the Certificates and the right of the Owners.

Notices to Rating Agencies. The Fiscal Agent shall provide to each Rating Agency then rating the Certificates prompt written notice of (i) the appointment of any successor Fiscal Agent or Paying Agent; (ii) any material amendment to the Trust Agreement or the Master Financing Lease; (iii) any prepayment of the Certificates; and (iv) any defeasance or discharge of the Certificates or the Trust Agreement.

MASTER ASSIGNMENT (REAL PROPERTY)

Assignment

The Corporation unconditionally grants, sells, assigns, transfers and conveys to the Fiscal Agent without recourse (i) all of its rights to the Sites pursuant to the Site Leases; (ii) all of its rights to receive the Base Rent Payments and any Additional Rent under and pursuant to the Master Financing Lease; (iii) its right to take all actions, exercise all remedies, and give all consents under and pursuant to the Site Leases and the Master Financing Lease; (iv) all of its remaining right, title and interest in, to and under the Site Leases, the Master Financing Lease, and the Financing Leases, and in and to the Property and any rents or profits generated therefrom; and (v) its right of access more particularly described in the Master Financing Lease.

Acceptance

The Fiscal Agent accepts the grant, sale, assignment, transfer and conveyance for the benefit of the Owners of the Certificates, subject to the conditions and terms of the Trust Agreement, and all such Base Rent Payments and Additional Rent shall be applied and all of such right, title and interest shall be exercised by the Fiscal Agent as provided in the Trust Agreement. The Fiscal Agent agrees to keep, perform and observe all of the terms, conditions, covenants and agreements under the Site Leases and the Master Financing Lease from and after the Dated Date.

Acknowledgement

The Fiscal Agent and the Corporation acknowledge and agree that:

(i) such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest in, to and under the Site Leases, the Master Financing Lease and in and to the Property;

(ii) the Corporation shall cease to have any rights, duties or obligations under the Site Leases, the Master Financing Lease or with respect to the Property;

(iii) the Fiscal Agent shall have all the rights, duties and obligations of the Corporation thereunder as if the Fiscal Agent had been the original party thereto; and

(iv) except where the context otherwise requires, every reference in the Site Leases and the Master Financing Lease to the Corporation shall be deemed and construed to refer to the Fiscal Agent.

SITE LEASE

Lease of the Site; Ownership

Under the Site Lease, the Agency leases to the Corporation and the Corporation hires from the Agency, the real property and all improvements thereon described in the Site Lease, subject to all easements, covenants, conditions and restrictions existing as of the Dated Date. Under two Site Leases, the Agency represents and warrants that it is the owner in fee of the Site, subject only to Permitted Encumbrances. Under one Site Lease, the Agency represents and warrants that it is the owner of the leasehold interest in the Site under the Land Lease, subject only to Permitted Encumbrances.

Term

The term of the Site Lease commences on the Dated Date, and ends on the termination date of the related Financing Lease, unless such term is extended or sooner terminated. If on such date, the Financing Lease shall not be discharged by its terms, then the term of the Site Lease shall be extended until ten (10) days after all amounts due under the Financing Lease shall have been paid and the Financing Lease shall have been discharged by its terms, except that the term of the Site Lease shall in no event be extended beyond five years after the term date indicated by the Agency. If, prior to scheduled termination date of the Site Lease, all amounts due under the Financing Lease shall have been paid and the Financing Lease shall have been discharged by its terms, the term of the Site Lease shall end ten (10) days thereafter or ten (10) days after written notice by the Agency to the Corporation, whichever is earlier.

Assignments and Subleases

Under the Site Lease, the Corporation is not permitted to grant, sell, assign, mortgage, pledge, sublet or transfer any of its right, title or interest in, to or under the Site Lease or the Site except as expressly provided in the Master Assignment (Real Property), the Master Financing Lease and the Financing Lease, without the prior written consent of the Agency. The Agency consents to the sublease of the applicable Property pursuant to the Master Financing Lease, and the assignment of the Corporation's right, title and interest under the Site Lease to the Fiscal Agent pursuant to the Master Assignment (Real Property) for the benefit of the Owners of the Certificates.

Upon the occurrence and continuance of an Event of Default or Agency Event of Default with respect to the applicable Property, the Corporation has the right, pursuant to the Master Assignment (Real Property), the Trust Agreement and the Master Financing Lease, to sublease all or any portion of such Property; *provided*, that the subtenant and the terms and provisions of the sublease shall be subject to the prior written approval of the Agency, which approval shall not be unreasonably withheld or delayed.

Eminent Domain; Loss of Title

In the event the whole or any part of the applicable Property is taken permanently or temporarily under the power of eminent domain (or sold under threat of condemnation), or there is a loss of title to the whole or any part of such Property, the interest of the Corporation in such Property shall be recognized and is determined to be an amount not less than the then unpaid indebtedness incurred by the Agency under its Financing Lease. The term "unpaid indebtedness," as used in the preceding sentence, includes all unpaid Agency Principal Components, Agency Interest Components and all other payments required to be made by the Agency pursuant to the Financing Lease.

FINANCING LEASES

Appointment of Agents; Changes to the Project; Additions to Property; Substitution and Release of Property

Appointment of Agents. The Agency ratifies, approves and confirms, and accepts and agrees to, its designation and appointment as agent of the Corporation in connection with the design, acquisition and/or construction of the Project and the financing or refinancing of the Property.

Changes to the Project; Additions to the Property. The Agency, with the prior written consent of the State Treasurer, may revise the Project to be acquired, constructed, financed or refinanced pursuant hereto; provided, that:

(i) such Project as so revised shall satisfy the requirements under the Financing Lease with respect to the substitution of Property;

(ii) the Project Costs shall not be materially reduced thereby; and

(iii) any such revision shall not relieve the Agency of any obligation to design, acquire, construct, finance or refinance the Project or the Property in accordance therewith.

The appointment of the Agency as agent of the Corporation in connection with the design, acquisition and/or construction of the Project is made and conferred irrevocably by the Corporation, and shall not be terminated by any act of the Agency, the State Treasurer or otherwise.

The Agency shall have the right during the term of the Financing Lease, at its cost and expense, to make additions, betterments and improvements to the Property, and to attach fixtures, structures and signs thereto; provided, that such additions, betterments and improvements and fixtures, structures and signs (i) shall be constructed and installed in accordance with applicable laws and regulations, and not in violation of any easements, restrictions, conditions or covenants affecting title to the Property; and (ii) shall not diminish the value, capacity or usefulness of the Property.

The Agency also shall have the right during the term of the Financing Lease, without the consent of any Owners, to enter into Additional State Agency Financing Lease Addenda and Additional Site Leases with the Corporation to finance all or any portion of the cost of such additions, betterments and improvements to the Property so long as such leases do not reduce the obligation of the State to perform its obligations under the Master Financing Lease, including without limitation its obligation to make Base Rent Payments, and will not, in an Opinion of Counsel, adversely affect the tax-exempt status of the Interest Component of Base Rent Payments evidenced and represented by the Certificates. If the Agency enters into any Additional State Agency Financing Lease Addendum for this purpose, the Corporation may be granted an interest in the Property under an Additional Site Lease of all or any portion of the Property, which leasehold interest may be assigned to the Fiscal Agent for the benefit of owners of certificates of

participation in the Additional Master Financing Lease to which such Additional State Agency Financing Lease is related. The occurrence of an Event of Default or Permitted Termination Event with respect to the Financing Lease shall constitute a like event under any Additional State Agency Financing Lease Addendum, and the occurrence of any such like event under any Additional State Agency Financing Lease Addendum shall constitute an Event of Default or Permitted Termination Event, as the case may be, under this Financing Lease. The owners of certificates of participation in any Additional Master Financing Lease shall be secured *pari passu* with the Owners with respect to any amounts received by the Fiscal Agent with respect to the Property following the occurrence of an Event of Default or Permitted Termination Event.

Substitution of Property. After design, acquisition, construction, financing or refinancing of the Project or the Property, the Agency, with the prior written consent of the State Treasurer and only upon the satisfaction of the requirements set forth in the Master Financing Lease, may substitute for the Property, another parcel or parcels of real property. As a condition to any such substitution, the Agency shall deliver to the State Treasurer:

(i) an appraisal or other written evidence from an independent, disinterested real property appraiser acceptable to the State Treasurer and the Fiscal Agent to the effect that such substitute Property has an estimated fair rental value for the remaining term of the Financing Lease equal to or greater than the Agency Rent Payments due under the Financing Lease from time to time thereafter; and

(ii) a certificate of the Agency to the effect that such substitute Property (a) is free and clear of any mortgages, deeds of trust, liens or other similar encumbrances, other than Permitted Encumbrances, and (b) is essential to the Agency's ability to carry out its governmental functions and responsibilities.

The State Treasurer, the Fiscal Agent, as assignee of the Corporation, and the Agency shall execute, deliver and record such amendments and modifications to the Site Lease, the Master Financing Lease, the Master Assignment, and the Financing Lease, and such other documents, agreements and instruments, as the State Treasurer or the Fiscal Agent deems necessary or desirable in connection with such substitution.

Release of Property. After design, acquisition, construction, financing or refinancing of the Project, the Agency, with the prior written consent of the State Treasurer and only upon the satisfaction of the requirements set forth in the Master Financing Lease, may release a portion of the Property leased under the Site Lease, and subleased under and pursuant to the Master Financing Lease and the Financing Lease. As a condition to any such release, the Agency shall:

(i) deliver to the State Treasurer an appraisal or other written evidence from an independent, disinterested real property appraiser acceptable to the State Treasurer and the Fiscal Agent to the effect that the remaining portion of the Property has an estimated fair rental value for the remaining term of the Financing Lease equal to or greater than the Agency Rent Payments due from time to time under the Financing Lease; and

(ii) provide any necessary easements, reciprocal agreements or other rights as may be necessary to provide comparable pedestrian and vehicular access, and other uses and amenities (including but not limited to water, sewer, electrical, gas, telephone and other utilities) as existed prior to such release.

The State Treasurer, the Fiscal Agent, as assignee of the Corporation, and the Agency shall execute, deliver and record such amendments and modifications to the Site Lease, the Master Financing Lease, the Master Assignment and the Financing Lease, and such other documents, agreements and instruments, as the State Treasurer or the Fiscal Agent deems necessary or desirable in connection with such release.

Title to the Property

Fee title to the Property, and all additions, modifications, repairs and improvements thereto, shall remain and vest in the Agency, subject to the respective leasehold estates under the Site Lease, the Master Financing Lease and the Financing Lease, without any further action by the State, the Agency or the Corporation.

Assignment

In order to secure the payment and performance of the State of its obligations under the Master Financing Lease, the State has assigned and transferred to the Corporation the State's interest in the Agency Financing Lease and the rentals, income and profits herefrom, including without limitation the Agency Rent Payments. The Agency acknowledges and agrees to such assignment and transfer. The State Treasurer irrevocably authorizes and directs the Agency, upon receipt of written notice from the Fiscal Agent, as assignee of the Corporation, that an Event of Default has occurred and is continuing, to pay to the Fiscal Agent the Agency Rent Payments and other amounts due and to become due under the Financing Lease. The State Treasurer shall not have any right or claim against the Agency for any Agency Rent Payments or other amounts so paid by the Agency to the Fiscal Agent.

Disclaimer of Warranties

The Agency acknowledges and agrees that it has had adequate opportunity to inspect the Property, and that such Property, including but not limited to the structures and improvements thereon, is acceptable to the Agency in its present condition. The Agency subleases the Property in its present condition, "as is." THE STATE MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AND ASSUMES NO RESPONSIBILITY, LIABILITY OR OBLIGATION, AS TO THE VALUE, DESIGN, STRUCTURAL OR OTHER CONDITION, USE, USABILITY, SUITABILITY, OCCUPANCY OR MANAGEMENT OF THE PROPERTY, AS TO THE INCOME FROM OR EXPENSE OF THE USE OR OPERATION THEREOF, AS TO TITLE TO THE PROPERTY, AS TO COMPLIANCE WITH APPLICABLE ZONING, SUBDIVISION, PLANNING, SAFETY, FIRE, HEALTH OR ENVIRONMENTAL LAWS, REGULATIONS, ORDINANCES, CODES OR REQUIREMENTS, OR AS TO COMPLIANCE WITH APPLICABLE COVENANTS, CONDITIONS OR RESTRICTIONS, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROPERTY.

Agency Rent Payments

Each Agency Rent Payment shall consist of an Agency Principal Component and/or an Agency Interest Component as set forth in an exhibit to the Financing Lease. Interest shall accrue and be calculated as determined by the State Treasurer, which determination shall be binding and conclusive against the Agency, absent manifest error. Each Agency Rent Payment payable under the Financing Lease shall be paid to or upon the order of the State Treasurer, at such place as the State Treasurer shall direct in writing not less than ten (10) Business Days prior to the Agency Rent Payment Date, by electronic funds transfer in lawful money of the United States of America. Payments of Additional Rent shall be made to or upon the order of the State Treasurer. Each Agency Rent Payment shall be applied first to the Agency Interest Component due under the Financing Lease, and then to the Agency Principal Component due under the Financing Lease.

The Corporation directs the State Treasurer, and the State Treasurer agrees to transfer all Agency Rent Payments directly to the Fiscal Agent, as assignee of the Corporation; *provided, however,* that the State Treasurer is not thereby agreeing to obligate its funds to make Agency Rent Payments.

Such payments of Agency Rent Payments and Additional Rent for each rental payment period during the term of the Financing Lease shall constitute the total rental due for such period, and shall be paid for and in consideration of the use and occupancy and continued quiet enjoyment of the Property for such period. The Parties hereto have determined and agreed that such total rental does not exceed the fair rental value of the Property for each such rental period, given the purposes, terms and provisions of the Financing Lease. Anything in the Financing Lease to the contrary notwithstanding, the Agency waives any right that it may have under the laws of the State to a rebate or repayment of any portion of such rental in the event that there is substantial interference with the use or right to possession by the Agency of the Property or any portion thereof as a result of material damage, destruction or condemnation.

Sources of Payment of Agency Rent Payments

State Agency Financing Lease Addendum. The Agency acknowledges and agrees that the State is subleasing the Property from the Corporation under the Master Financing Lease for and on behalf of the Agency. Pursuant to the State Agency Financing Lease Addendum to the Master Financing Lease, the Agency agrees to sublease its Property and to make Agency Rent Payments therefor, at such times and in such amounts as provided therein. Such Agency Rent Payments shall be an amount sufficient in the aggregate to pay the Agency Rent Payment of the Property to be subleased by the State from the Corporation for and on behalf of the Agency under the Master Financing Lease.

Obligation of Agency Subject to Appropriation. Base Rent Payments shall be payable by the State solely from Agency Rent Payments to be made by the Agency. The obligation of the Agency to make its Agency Rent Payments shall be subject to appropriation by the State Legislature and to Executive Order reduction. The State shall not be obligated to pay Base Rent Payments other than from appropriated funds of the Agency.

Deposit and Investment of Agency Rent Payments

The Agency acknowledges and agrees that the Agency Rent Payments shall be deposited in a special fund or funds maintained by the State Treasurer (the "Agency Rent Payment Fund"). The Agency Rent Payments due on each Agency Rent Payment Date shall be at least sufficient, in the aggregate, to make the Base Rent Payment next coming due under the Master Financing Lease. Amounts in the Agency Rent Payment Fund, including investment earnings thereon, shall be used and applied, *first,* to make the Base Rent Payment next coming due, *and thereafter,* but prior to the next Agency Rent Payment Date, to the extent that amounts remain in such Fund after such Base Rent Payment is made, to pay Additional Rent or for any other lawful purpose of the State Treasurer. Amounts in the Agency Rent Payment Fund shall be invested in the Qualified Investments, and shall be separately accounted for, but may be commingled with other moneys on deposit with the State Treasurer solely for investment purposes. The Agency shall have no right, title or interest in or to the amounts on deposit from time to time in the Agency Rent Payment Fund.

Net Lease

The State Agency Financing Lease Addendum shall be deemed and construed to be a "triple net lease," and the State shall pay absolutely net during its term the Agency Rent Payments, Additional Rent and all other amounts due thereunder, without notice or demand, and free of any charges, assessments, Impositions or deductions whatsoever, and without any diminution, reduction, postponement, abatement, counterclaim, defense or set-off as a result of any dispute, claim or right of action by, against or among the State, the Corporation, the Fiscal Agent, the Agency, and/or any other Person, or for any other reason; provided, that nothing in such provision shall be construed to release or excuse the Corporation from the observance or performance of its obligations thereunder. If the Corporation shall fail to observe or perform any such obligation, the State may institute such legal action and pursue such other remedies

against the Corporation as the State deems necessary or desirable, including, but not limited to actions for specific performance, injunction and/or the recovery of damages.

Assignments by the Corporation

The Agency acknowledges and agrees that, concurrently with the execution and delivery of its Financing Leases, the Corporation will unconditionally grant, sell, assign, transfer and convey to the Fiscal Agent pursuant to the Master Assignment, without recourse:

(i) all of its rights to the Sites pursuant to the Site Leases,

(ii) all of its rights to receive the Base Rent Payments and any Additional Rent under and pursuant to the Master Financing Lease;

(iii) its right to take all actions, exercise all remedies, and give all consents under and pursuant to the Site Leases and the Master Financing Lease;

(iv) all of its remaining right, title and interest in, to and under the Site Leases, the Master Financing Lease, and the Financing Leases, and in and to the Property (including any security interest in the Financing Leases) and any rents or profits generated therefrom; and

(v) its right of access more particularly described in the Master Financing Lease, all in consideration for the payment by the Fiscal Agent to the State Treasurer, as agent of the Corporation, of the proceeds of the sale of the Certificates.

The State Treasurer and the Corporation have acknowledged and agreed that such grant, sale, assignment, transfer and conveyance by the Corporation is intended to be a true sale of the Corporation's right, title and interest, and that upon such grant, sale, assignment, transfer and conveyance, the Corporation shall cease to have any rights, duties or obligations under the Site Leases, the Master Financing Lease and the Financing Leases, or with respect to the Property, and the Fiscal Agent shall thereafter have all the rights, duties and obligations of the Corporation under the Financing Leases as if the Fiscal Agent had been the original party thereto, and, except where the context otherwise requires, every reference in the Financing Leases to the Corporation shall be deemed and construed to refer to the Fiscal Agent. Anything in the Financing Leases to the contrary notwithstanding, such grant, sale, assignment, transfer and conveyance shall not confer any rights or impose any duties or obligations on the Fiscal Agent other than as expressly set forth in the Trust Agreement and the Master Assignment.

Optional Prepayment

The Agency may, at its option, prepay all or any portion of its Agency Rent Payments then unpaid, in whole or in part on any date, by causing to be deposited with the State Treasurer money and/or Government Obligations in an amount sufficient for the State Treasurer to prepay or defease the portion of its Base Rent Payments corresponding thereto in accordance with the Master Financing Lease and to pay any Additional Rent in connection therewith.

The Agency shall provide the State Treasurer with not less than sixty (60) days' prior written notice of its intention to prepay any of its Agency Rent Payments which notice shall specify the date of prepayment, and the amount and the Agency Rent Payment Dates of the Agency Rent Payments to be prepaid. The State Treasurer shall notify the Agency within fifteen (15) Business Days after receipt of such notice from the Agency as to the amount required to be paid in connection with such prepayment or defeasance of the corresponding Base Rent Payments, including any Additional Rent in connection therewith. The determination by the State Treasurer of the amount to be paid by the Agency shall be binding and conclusive against the Agency, absent manifest error.

Mandatory Prepayment; Special Prepayment

Eminent Domain; Loss of Title. The Agency shall prepay or cause to be prepaid from eminent domain awards or sale proceeds received pursuant to a Financing Lease, and from the net proceeds of title insurance received pursuant to a Financing Lease, the Agency Rent Payments then unpaid, in whole or in part on any date, so that the aggregate annual Agency Rent Payments for the related Property from and after such prepayment date shall be in approximately equal amounts, at a Prepayment Price equal to the sum of the Agency Rent Payments so prepaid, without premium, plus accrued interest evidenced and represented thereby to the date of prepayment.

Insurance Proceeds. The Agency may, at its option, prepay or cause to be prepaid from net insurance proceeds received pursuant to a Financing Lease, the Agency Rent Payments then unpaid, in whole or in part on any date, so that the aggregate annual Agency Rent Payments for the related Property from and after such prepayment date shall be in approximately equal amounts, at a Prepayment Price equal to the sum of the Agency Rent Payments prepaid, without premium, plus accrued interest evidenced and represented thereby to the date of prepayment.

Revision of Agency Rent Payments upon Prepayment

The Agency Principal Components and Agency Interest Components of the Agency Rent Payments due on each Agency Rent Payment Date on and after the date of any prepayment pursuant to a Financing Lease shall be reduced by the State Treasurer to reflect such prepayment, in Authorized Denominations, in such amounts and on such Agency Rent Payment Dates as the Agency shall elect in its written notice to the State Treasurer pursuant to the Financing Lease.

Discharge of Financing Lease

All right, title and interest of the State in the Financing Lease and all obligations of the Agency under the Financing Lease shall cease, terminate, become void and be completely discharged and satisfied (except for the right of the State Treasurer and the Fiscal Agent, as assignee of the Corporation, and the obligation of the Agency to have the moneys and Government Obligations so set aside applied to make the remaining Agency Rent Payments) when either:

(i) all Agency Rent Payments and all Additional Rent and other amounts due under the Financing Lease have been paid in accordance therewith; or

(ii) (a) the Agency shall have delivered a written notice to the State Treasurer of its intention to prepay all of the Agency Rent Payments remaining unpaid;

(b) the Agency shall have caused to be deposited with the State Treasurer (1) moneys and/or Government Obligations in accordance with the Financing Lease; and (2) an Opinion of Counsel to the effect that such actions are permitted under the Financing Lease, under the Master Financing Lease and under the Trust Agreement and will not cause interest evidenced and represented by the Certificates to be includable in gross income for federal income tax purposes under the Code; and

(c) for so long as any Base Rent Payments remain unpaid, provision shall have been made satisfactory to the Corporation and the Fiscal Agent for payment of all Additional Rent.

Eminent Domain

If the Property subleased to the Agency pursuant to the Financing Lease, or so much thereof so as to render the remainder unsuitable for the purposes for which it was used by the Agency at the time of such taking shall be taken under the power of eminent domain (or sold under threat of condemnation), the sublease of such Property pursuant to the Financing Lease shall cease as of the day that the Agency is

required to vacate such Property. If less than all of such Property is taken under the power of eminent domain (or sold under threat of condemnation), and the remainder is suitable for the purposes for which it was used by the Agency at the time of such taking, as reasonably determined by the State Treasurer, then the sublease thereof pursuant to the Financing Lease shall continue in full force and effect as to such remainder, and the Parties waive any benefits of the law to the contrary. In such event, there shall be no abatement of the rental due under the Financing Lease. So long as any Agency Rent Payments under the Financing Lease remain unpaid, any eminent domain award and any proceeds of sale under threat of condemnation for all or any part of the Property shall be applied to the prepayment of Agency Rent Payments as provided in the Financing Lease. Any award or proceeds in excess of the amount necessary to prepay such Agency Rent Payments due under the Financing Lease, and thereby to prepay or provide for the payment of the corresponding portion of the Base Rent Payments under the Master Financing Lease, shall be paid to the Corporation, the State and the Agency as their respective interests may appear.

Loss of Title

If there is a loss of title to the Property subleased to the Agency pursuant to the Financing Lease which is insured under a policy or policies of title insurance, or so much thereof so as to render the remainder unsuitable for the purposes for which it was used by the Agency at the time of such loss, the sublease of such Property pursuant to the Financing Lease shall cease as of the day that the Agency is required to vacate such Property. If there is a loss of title to less than all of such Property, and the remainder is suitable for the purposes for which it was used by the Agency at the time of such loss, as reasonably determined by the State Treasurer, then the sublease thereof pursuant to the Financing Lease shall continue in full force and effect as to such remainder, and the Parties waive any benefits of the law to the contrary. In such event, there shall be no abatement of the rental due under the Financing Lease. So long as any Agency Rent Payments under the Financing Lease remain unpaid, any payments under such title insurance policy or policies with respect to such Property shall be applied to the prepayment of Agency Rent Payments as provided in the Financing Lease. Any payment in excess of the amount necessary to prepay such Agency Rent Payments due under the Financing Lease, and thereby to prepay or provide for the payment of the corresponding portion of the Base Rent Payments due under the Master Financing Lease, shall be paid to the Corporation, the State and the Agency as their respective interests may appear.

Damage or Destruction

If all or any portion of the Property subleased to the Agency pursuant to the Financing Lease shall be damaged or destroyed by fire or other casualty, the sublease thereof pursuant to the Financing Lease shall not terminate, nor shall there be any abatement of the rent payable under the Financing Lease. So long as any Agency Rent Payments under the Financing Lease remain unpaid, any payments under the property insurance policy or policies with respect to such Property may be applied to the prepayment of Agency Rent Payments as provided in the Financing Lease, or may be paid to the State Treasurer and applied as provided in the Trust Agreement.

Covenants and Agreements of the Agency

The Agency covenants and agrees as follows:

(i) *Budget.* The Agency shall (i) include in its biennial budget any scheduled Agency Rent Payments that may be required to be made by the Agency during such Biennium; (ii) submit such budget to OFM at such times and in such manner as required by law; (iii) use its best efforts to obtain appropriations by the State Legislature in amounts sufficient to make any such payments; (iv) include all such payments in its statements of proposed expenditures for each fiscal period required by law to be submitted to OFM; and (v) use its best efforts to obtain allotments by OFM of appropriated funds sufficient to make all such payments. To the extent permitted by law, the Agency agrees that, to the extent that any amounts are included in its budget for purposes or

facilities served, or functions or operations supported or provided by the Property, the Agency will allocate a sufficient portion of such amounts to the payment of the Agency Rent Payments and Additional Rent due under its Financing Lease.

(ii) *Tax-Exemption.* The Agency shall not make any use of the proceeds of the Financing Lease or the Certificates or of any other amounts, regardless of the source, or of any property, and shall not take or refrain from taking any action, that would cause the Master Financing Lease or the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. The Agency shall not use or permit the use of the Property or any part thereof by any Person other than a "governmental unit" as that term is defined in Section 141 of the Code, in such manner or to such extent as would result in the loss of the exclusion from gross income for federal income tax purposes of the Interest Component of the Base Rent Payments under Section 103 of the Code. The Agency shall not make any use of the proceeds of the Financing Lease or the Certificates or of any other amounts, and shall not take or refrain from taking any action, that would cause the Master Financing Lease or the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code or "private activity bonds" within the meaning of Section 141 of the Code, or "hedge bonds" within the meaning of Section 149 of the Code. To that end, for so long as any Agency Rent Payments remain unpaid, the Agency, with respect to such proceeds and other amounts, will comply with all requirements under such Sections and all applicable regulations of the United States Department of the Treasury promulgated under the Financing Lease. The Agency will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the Interest Components of the Agency Rent Payments will not be included in gross income of the Owners of the Certificates for federal income tax purposes under the Code, and will take no action that would result in such interest being so included. The Agency shall comply with the applicable provisions of the Tax Certificate.

(iii) *Liens; Assignments and Subleases.* The Agency shall not create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property or any part thereof, except for Permitted Encumbrances. The Agency shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim if the same shall arise at any time. The Agency shall not grant, sell, transfer, assign, pledge, convey, mortgage, pledge, sublet or otherwise dispose of any of the Property or any interest in the Financing Lease during the term of the Financing Lease, and any such attempted grant, sale, transfer, assignment, pledge, conveyance or disposal shall be void.

(iv) *Use of Property.* During the term of its Financing Lease, the Agency will use the Property for the purposes of performing one or more of its essential governmental functions or responsibilities.

(v) *Maintenance; Repairs.* For so long as the Agency is in possession of the Property, the Agency shall be solely responsible for the maintenance and repair, both ordinary and extraordinary, thereof. The Agency will (a) keep and maintain the Property in good repair and condition, protect the same from deterioration other than normal wear and tear, and pay or cause to be paid all charges for utility services to the Property; (b) comply with the requirements of applicable laws, ordinances and regulations and the requirements of any insurance or self-insurance program required under the Financing Lease in connection with the use, occupation and maintenance of the Property; (c) obtain all permits and licenses, if any, required by law for the use, occupation and maintenance of the Property; and (d) pay all costs, claims, damages, fees and charges arising out of its possession, use or maintenance of the Property.

(vi) *Hazardous Substances.*

(a) *Use.* The Agency and its officers, agents, employees, contractors, or invitees, shall not use the Property in a manner that violates any applicable federal, state or local law,

regulation or ordinance, including, but not limited to, any such law, regulation or ordinance pertaining to air and water quality, the handling, transportation, storage, treatment, usage and disposal of Toxic or Hazardous Substances, air emissions, other environmental matters, and all zoning and other land use matters. The Agency shall not cause or permit the release or disposal of any Toxic or Hazardous Substances on or from the Property.

(b) *Indemnity.* The Agency, to the extent permitted by law, agrees to protect, indemnify, defend and hold the Corporation and the Fiscal Agent, and their respective directors, officers, employees and agents harmless from any claims, judgments, damages, penalties, fines, expenses, liabilities or losses arising out of or in any way relating to the presence, release or disposal of Toxic or Hazardous Substances on or from the Property; *provided, however,* that the Agency shall not be obligated to provide such indemnification, in its capacity as Lessee under the Financing Lease, from any such claims, judgments, damages, penalties, fines, expenses, liabilities or losses relating to the presence, release or disposal of Toxic or Hazardous Substances on or from the Property occurring when the Agency is or was not in possession of the Property. Such indemnity shall include, without limitation, costs incurred in connection with:

(1) Toxic or Hazardous Substances present or suspected to be present in the soil, groundwater or soil vapor on or under the Property; or

(2) Toxic or Hazardous Substances that migrate, flow, percolate, diffuse, or in any way move onto or under the Property; or

(3) Toxic or Hazardous Substances present on or under the Property as a result of any discharge, dumping, spilling (accidental or otherwise) onto the Property by any person, corporation, partnership, or entity other than the Agency, its officials, officers, employees or agents.

The indemnification provided by this subsection shall also specifically cover, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any federal, state or local governmental agency or political subdivision or other third party because of the presence or suspected presence of Toxic or Hazardous Substances in the soil, groundwater, or soil vapor on or under the Property. Such costs may include, but not be limited to, damages for the loss or restriction on use of renewable or usable space or of any amenity of the Property, sums paid in settlements of claims, attorneys fees, consultants fees, and expert fees.

(viii) *Notification Requirements.* The Agency shall promptly notify the other Parties in writing of all spills or releases of any Toxic or Hazardous Substances, all failures to comply with any federal, state, or local law, regulation or ordinance, all inspections of the Property by any regulatory entity concerning the same, all notices, orders, fines or communications of any kind from any governmental entity or third party that relate to the existence of or potential for environmental pollution of any kind existing on or resulting from the use of the Property or any activity conducted thereon, and all responses or interim cleanup action taken by or proposed to be taken by any government entity or private party on the Property.

Upon request by any Party, the Agency shall provide such Party with a written report (a) listing the Toxic or Hazardous Substances that were used or stored on the Property; (b) discussing all releases of Toxic or Hazardous Substances that occurred or were discovered on the Property and all compliance activities related to Toxic or Hazardous Substances, including all contacts with and all requests from third parties for cleanup or compliance; (c) providing copies of all permits,

manifests, business plans, consent agreements or other contracts relating to Toxic or Hazardous Substances executed or requested during that time period; and (d) including such other information requested by such Party.

(ix) *Inspection Rights.* The Parties, and their its officers, employees and agents, shall have the right, but not the duty, to inspect the Property and the Agency's relevant environmental and land use documents at any time and to perform such tests on the Property as are reasonably necessary to determine whether the Agency is complying with the terms of the Financing Lease. The Agency shall be responsible for paying for any testing that is conducted if the Agency is not in compliance with the Financing Lease and such Party has reason to believe such noncompliance is due to the Agency's operations or use of the Property. If the Agency is not in compliance with the Financing Lease, such Party, without waiving or releasing any right or remedy it may have with respect to such noncompliance, shall have the right to immediately enter upon the Property to remedy any contamination caused by the Agency's failure to comply notwithstanding any other provision of the Financing Lease. The Party shall use reasonable efforts to minimize interference with the Agency's business but shall not be liable for any interference caused thereby.

(x) *Corrective Action.* In the event any investigation, site monitoring, containment, cleanup, removal, restoration or other remedial work ("Remedial Work") of any kind is necessary under any applicable federal, state or local laws, regulations or ordinances, or is required by any governmental entity or other third person because of or in connection with the presence or suspected presence of Toxic or Hazardous Substances on or under the Property, the Agency shall assume responsibility for all such Remedial Work and shall promptly commence and thereafter diligently prosecute to completion all such Remedial Work. The Agency shall pay for all costs and expenses of such Remedial Work, including, without limitation, the Party's reasonable attorneys' fees and costs incurred in connection with monitoring or review of such Remedial Work. In the event the Agency shall fail to timely commence, or cause to be commenced, or fail to diligently prosecute to completion, such Remedial Work, such Party may, but shall not be required to, cause such Remedial Work to be performed and all costs and expenses thereof, or incurred in connection therewith, shall become immediately due and payable as Additional Rent due to the State from the Agency.

(xi) *Insurance.*

(a) The Agency shall maintain, or cause to be maintained, in full force and effect, comprehensive general liability insurance with respect to the Property in such amounts as may be reasonably determined by the Agency from time to time but in any event not less than $1,000,000 per occurrence, or such greater amount as the State Treasurer may reasonably require from time to time. Such insurance may be carried under a blanket policy with umbrella coverage. Such insurance shall cover any and all liability of the Agency and its officials, officers, employees and volunteers. Such insurance shall include (1) coverage for any accident resulting in personal injury to or death of any person and consequential damages arising therefrom; and (2) comprehensive property damage insurance.

(b) The Agency shall maintain or cause to be maintained in full force and effect fire and extended coverage insurance with respect to the Property in such amounts as the Agency may reasonably determine from time to time, but in any event not less than the aggregate of the principal components of Agent Rent Payments due under the Financing Lease which remain unpaid. Such insurance may be carried under a policy or policies covering other property of the Agency. Such property insurance shall be "all risk" insurance, and shall cover physical loss or damage as a result of fire, lightning, theft, vandalism,

malicious mischief, flood, earthquake, and boiler and machinery; provided, that the State Treasurer may waive the requirement for earthquake or flood insurance if it determines, in its reasonable discretion, that the same is not available from reputable insurers and commercially reasonable rates. Such extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as the Agency may reasonably determine from time to time. Such policies of insurance shall provide that all proceeds under the Financing Lease shall be payable to the Fiscal Agent, as assignee of the Corporation, pursuant to a lender's loss payable endorsement in a form approved in writing by the State Treasurer, which approval shall not be unreasonably withheld or delayed. The net proceeds of such insurance shall be applied as provided in the Trust Agreement. Such insurance may at any time include a deductible of not to exceed $5,000 for losses in any year, or such greater amount as the State Treasurer may approve in writing.

(c) The insurance required under paragraphs (a) and (b) above (1) shall be provided by a financially responsible insurance company authorized to do business in the State; (2) shall name the State and the Fiscal Agent, as assignee of the Corporation, as additional insureds under the Financing Lease; (3) shall provide that the same may not be canceled or given notice of non-renewal, nor shall the terms of conditions thereof be altered, amended or modified, without at least 45 days' prior written notice being given by the insurer to the State Treasurer; and (4) may be provided in whole or in part through a funded program of self-insurance reviewed at least annually by an insurance actuary.

(d) A certificate of insurance with respect to the required coverages shall be provided by the Agency to the State Treasurer annually on or prior to the December 1 with respect to any required insurance maintained pursuant hereto.

(e) Unless otherwise agreed by the State, the Agency shall obtain a policy or policies of title insurance on the Property, subject only to Permitted Encumbrances, in an amount equal to the aggregate amount of Agency Rent Payments to become due under the Financing Lease, payable to the State and the Fiscal Agent, in a form and from a provider approved in writing by the State Treasurer, which approval shall not be unreasonably withheld or delayed. The proceeds received under any such policy shall be applied as provided in the Financing Lease.

(f) The Agency will pay or cause to be paid when due the premiums for all insurance policies required under the Financing Lease.

Agency Event of Default

(i) Failure by the Agency to pay or cause to be paid any Agency Rent Payment required to be paid under the Financing Lease within ten (10) Business Days of the respective Agency Rent Payment Date, other than (in the case of a Agency) as a result of a Permitted Termination Event;

(ii) Failure by the Agency to observe or perform any covenant, agreement, term or condition on its part to be observed or performed under the Financing Lease, other than as set forth in paragraph (i) above, for a period of thirty (30) days after written notice from the State Treasurer or the Fiscal Agent to the Agency specifying such failure and requesting that it be remedied; *provided, however,* that such period shall be extended for not more than sixty (60) days if such failure cannot be corrected within such period, and the corrective action is commenced by the Agency within such period and diligently pursued until the failure is corrected;

(iii) If any statement, representation, or warranty made by the Agency in the Financing Lease or in any writing delivered by the Agency pursuant hereto or in connection therewith is false, misleading, or erroneous in any material respect;

(iv) If the Agency's interest under the Financing Lease or any part of the Financing Lease shall be assigned, sublet or transferred other than as provided in the Financing Lease, either voluntarily or by operation of law;

(v) If the Agency shall abandon or vacate the Property; and

(vi) Inability of the Agency to generally pay its debts as such debts become due, or admission by the Agency, in writing, of its inability to pay its debts generally, or the making by the Agency of a general assignment for the benefit of creditors, or the institution of any proceeding by or against the Agency seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding-up, reorganization, reimbursement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or for appointment of a receiver, trustee, or other similar officer of it or any substantial part of its property, or the taking of any action by the Agency to authorize any of the actions set forth above in the Financing Lease.

Notwithstanding the foregoing provisions of the Financing Lease, if by reason of *force majeure* the Agency is unable in whole or in part to carry out the covenants, agreements, terms and conditions on its part contained in the Financing Lease, the Agency shall not be deemed in default during the continuance of such inability. The term *"force majeure"* means the following: acts of God; strikes; lockouts or other industrial disturbances or disputes; acts of public enemies; orders or restraints of any kind of the government of the United States of America or any of its departments, agencies or officials, or of its civil or military authorities; orders or restraints of the State or of any of its departments, agencies or officials or civil or military authorities of the State; wars, rebellions, insurrections; riots; civil disorders; blockade or embargo; landslides; earthquakes; fires; storms; droughts; floods; explosions; or any other cause or event not within the control of the Agency.

The State Treasurer, with the prior written consent of the Fiscal Agent, may, at its election, waive any default or Agency Event of Default and its consequences under the Financing Lease and annul any notice thereof by written notice to the Agency to such effect, and thereupon the respective rights of the Parties under the Financing Lease shall be as they would have been if such default or Agency Event of Default had not occurred.

Rights of State Treasurer Following Agency Default Event

(i) *Continuation; Reentry and Reletting.* The State may continue the Financing Lease in full force and effect, and (a) collect rent and other amounts as they become due under the Financing Lease, (b) enforce every other term and provision of the Financing Lease to be observed or performed by the Agency, and (c) exercise any and all rights of entry and reentry upon the Property. In the event that the State does not elect to terminate the Financing Lease in the manner provided pursuant to paragraph (ii) of this Subheading, the Agency agrees to observe and perform all terms and provisions in the Financing Lease to be observed or performed by it, and, if the Property is not relet, to pay the full amount of the rent and other amounts due under the Financing Lease for the term of the Financing Lease, or, if the Property or any part thereof is relet, to pay any deficiency that results therefrom, in each case at the same time and in the same manner as otherwise provided in the Financing Lease, and notwithstanding any reentry or reletting by the State, or suit in unlawful detainer or otherwise brought by the State for the purpose of effecting such re-entry or obtaining possession of all or any part of the Property. Should the State elect to re-enter or obtain possession of all or any part of the Property, the Agency irrevocably appoints

the State as the Agency's agent and attorney-in-fact (a) to relet the Property, or any part thereof, from time to time, either in the name of the State or otherwise, upon such terms and conditions and for such use and period as the State may determine in its discretion, (b) to remove all persons in possession thereof and all personal property whatsoever situated upon the Property, and (c) to place such personal property in storage in any warehouse or other suitable place for the Agency in the county in which such personal property is located, for the account of and at the expense of the Agency. The Agency shall be liable for, and agrees to pay the State, the State's costs and expenses in connection with reentry of the Property, removal and storage of any personal property, and reletting of the Property. The Agency agrees that the terms of the Financing Lease constitute full and sufficient notice of the right of the State Treasurer to reenter and relet the Property or any part thereof without effecting a surrender or termination of the Financing Lease. Termination of the Financing Lease upon an Agency Event of Default shall be effected solely as provided in paragraph (ii) of this Subheading. The Agency further waives any right to, and releases, any rental obtained by the State upon reletting in excess of the rental and other amounts otherwise due under the Financing Lease.

(ii) *Termination.* The State may terminate the Financing Lease, but solely upon written notice by the State Treasurer to the Agency of such election. No notice to pay rent, notice of default, or notice to deliver possession of the Property or of any part thereof, nor any entry or reentry upon the Property or any part thereof by the State Treasurer, nor any proceeding in unlawful detainer or otherwise brought by the State Treasurer for the purpose of effecting such reentry or obtaining possession, nor any other act shall operate to terminate the Financing Lease, and no termination of the Financing Lease on an account of a Master Contract Event of Default shall be or become effective by operation of law or acts of the Parties hereto or otherwise, unless and until such notice of termination shall have been given by the State Treasurer. The Agency agrees that no surrender of the Property or any part thereof, nor any termination of the Financing Lease by the Agency shall be valid or effective in any manner or for any purpose whatsoever unless such notice of termination shall have been given by the State Treasurer. Upon such termination, the State may (a) reenter the Property or any part thereof and remove all persons in possession thereof and all personal property whatsoever situated upon the Property, and (b) place such personal property in storage in any warehouse or other suitable place for the Agency in the county in which such personal property is located, for the account of and at the expense of the Agency. Upon such termination, the Agency's right to possession of the Property shall terminate, and the Agency shall surrender possession thereof to the State. In the event of such termination, the Agency shall remain liable to the State for damages in an amount equal to the rent and other amounts that would have been due under the Financing Lease for the balance of the term of the Financing Lease, less the net proceeds, if any, of any reletting of the Property or any part thereof by the State subsequent to such termination, after deducting the expenses incurred by the State in connection with any such reentry, removal and storage of personal property, and reletting. The State shall be entitled to collect damages from the Agency on the respective Agency Rent Payment Dates, or alternatively, the State Treasurer may accelerate the Agency's obligations under the Financing Lease and recover from the Agency (a) the worth at the time of award of the unpaid rental which had been earned at the time of termination, (b) the worth at the time of award of the amount by which the unpaid rental which would have been earned after the termination until the time of award exceeds the amount of such rental loss that the Agency proves could have been reasonably avoided, (c) the worth at the time of award by which the unpaid rental for the balance of the term of the Financing Lease after the time of award exceeds the amount of rental loss that the Agency proves could reasonably have been avoided, and (d) any other amount necessary to compensate the State for all the detriment proximately caused by the Agency's failure to perform its obligations under the Financing Lease, or which in the ordinary course would be likely to result therefrom, including but not limited to the State's expenses in

connection with reentry of the Property, removal and storage of any personal property, and reletting of the Property. The worth at the time of award shall be computed using a discount rate equal to the composite Agency Interest Component of the unpaid Agency Rent Payments.

(iii) *Other Remedies.* In addition to the other remedies set forth in the Financing Lease, upon the occurrence and continuance of an Agency Event of Default, the State shall be entitled to proceed to protect and enforce the rights vested in them by the Financing Lease or by law. The terms and provisions of the Financing Lease and the duties and obligations of the Agency under the Financing Lease, and the officers and employees thereof, shall be enforceable by the State Treasurer by an action at law or in equity, for damages or for specific performance, or for writ of mandate, or by other appropriate action, suit or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the State shall have the right to bring the following actions:

(a) *Accounting.* By action or suit in equity to require the Agency and its officers and employees to account as the trustee of an express trust.

(b) *Injunction.* By action or suit in equity to enjoin the violation of the rights of the State Treasurer.

(c) *Mandate.* By writ of mandate or other action, suit or proceeding at law or in equity to enforce the State Treasurer's rights against the Agency and its officers and employees, and to compel the Agency to perform and carry out its duties and obligations under the law and its covenants and agreements with the State Treasurer as provided in the Financing Lease.

In the event that the State shall prevail in any action, suit or proceeding brought to enforce any of the terms of provisions of the Financing Lease, the Agency shall be liable for the reasonable attorneys' fees of the State Treasurer in connection therewith.

No Remedy Exclusive; Non-Waiver

No remedy conferred upon or reserved to the State under the Financing Lease or under applicable law is intended to or shall be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Financing Lease or now or existing at law or in equity. No delay or omission to exercise any right or remedy accruing upon a default or an Agency Event of Default under the Financing Lease shall impair any such right or remedy or shall be construed to be a waiver of such default or Agency Event of Default, but any such right or remedy may be exercised from time to time and as often as may be deemed necessary or expedient. In order to exercise any remedy reserved to the State Treasurer under the Financing Lease, it shall not be necessary to give any notice, other than such notice as may be required under the Financing Lease. A waiver by the State Treasurer of any default or Agency Event of Default under the Financing Lease shall not constitute a waiver of any subsequent default or Agency Event of Default under the Financing Lease, and shall not affect or impair the rights or remedies of the State Treasurer in connection with any such subsequent default or Agency Event of Default.

No acceptance of less than the full amount of a rental payment due under the Financing Lease shall constitute an accord and satisfaction or compromise of any such payment unless the State Treasurer specifically agrees to such accord and satisfaction or compromise in writing.

Default by State

Anything in the Financing Lease to the contrary notwithstanding, the State shall not be in default in the observance or performance of any of the covenants, agreements, terms or conditions to be observed or performed by it under the Financing Lease unless and until obligations under the Financing Lease unless

and until the State shall have failed to observe or perform such covenant, agreement, term or condition for a period of sixty (60) days after written notice by the Agency to the State Treasurer specifying such failure and requesting that it be remedied; *provided, however,* that such period shall be extended for such additional time as shall be reasonably required to correct such failure if corrective action is commenced by the State within such period and diligently pursued until the failure is corrected.

Term

If on the scheduled termination date for the Financing Lease as set forth in the Financing Lease, all amounts due under the Financing Lease shall not have been paid or the payment thereof duly provided for pursuant to the Financing Lease, then the term of the Financing Lease shall be extended until ten (10) days after all amounts due under the Financing Lease shall have been paid or the payment thereof so provided for, except that the term of the Financing Lease shall in no event be extended more than five (5) years beyond such scheduled termination date. If prior to the scheduled termination date, all amounts due under the Financing Lease shall have been paid or the payment thereof so provided for, the term of the Financing Lease shall end ten (10) days thereafter or ten (10) days after written notice by the Agency to the State Treasurer, whichever is earlier. Notwithstanding the foregoing, the payment of all amounts due under the Financing Lease shall not result in the termination of the Financing Lease prior to the scheduled termination of the related Site Lease.

Termination

The Agency agrees, upon the termination or expiration of the Financing Lease, to quit and surrender the Property (i) in the same good order, condition and repair as the same was in at the time of commencement of the term under the Financing Lease, except for acts of God and reasonable wear and tear, that affect the condition of the Property; and (ii) free and clear of all leases, occupancies, liens and encumbrances, other than those existing as of the Dated Date or subsequently created in accordance therewith. The Agency agrees that any permanent improvements and structures existing upon the Property at the time of such termination or expiration of the Financing Lease shall remain thereon. The Agency shall thereafter execute, acknowledge and deliver to the State Treasurer such instruments of further assurance as in the reasonable opinion of the State Treasurer are necessary or desirable to confirm the State Treasurer's leasehold right, title and interest in and to the Property.

APPENDIX C

PROPOSED FORM OF CERTIFICATE COUNSEL OPINION

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[FORM OF APPROVING LEGAL OPINION]

State of Washington
c/o State Finance Committee
Olympia, Washington

Re: State of Washington Certificates of Participation, Series 2009F
(State Board for Community and Technical Colleges)

We have acted as special counsel to the state of Washington (the "State") in connection with the execution and delivery by The Bank of New York Mellon in the capacity of fiscal agent of the State (the "Fiscal Agent") of Certificates of Participation, Series 2009F (State Board for Community and Technical colleges), in the Initial Principal Amount of $_____ (the "Certificates") pursuant to a Trust Agreement, Series 2009F (the "Trust Agreement"), dated as of August 11, 2009 (the "Dated Date"), by and among the State, acting by and through the State Treasurer of the State (the "State Treasurer"), the Fiscal Agent and the Washington Finance Officers Association (the "Corporation"), a Washington nonprofit corporation. Capitalized terms used in this opinion that are not otherwise defined have the meanings given such terms in Appendix I to the Trust Agreement.

The Certificates evidence and represent undivided proportionate ownership interests in the Principal Components and Interest Components of Base Rent Payments to be made by the State ("State Payments") pursuant to a Master Financing Lease, Series 2009F (the "Master Financing Lease"), dated as of the Dated Date, entered into by and between the Corporation and the State, acting by and through the State Treasurer, to finance or refinance the acquisition and/or improvement of certain real property (the "Property") for the State Board for Community and Technical Colleges (the "Agency").

The Master Financing Lease constitutes a special, limited obligation of the State payable solely from the sources set forth therein, including Agency Rent Payments required to be paid by the Agency pursuant to its State Agency Financing Lease Addenda (together, the "Financing Leases").

Pursuant to a Master Assignment, Series 2009F (Real Property) (the "Master Assignment"), dated as of the Dated Date, the Corporation has unconditionally granted, sold, assigned, transferred and conveyed to the Fiscal Agent without recourse (i) all of its rights to receive the State Payments under and pursuant to the Master Financing Lease, and (ii) all of its remaining right, title and interest in, to and under the Master Financing Lease and the Financing

Leases, and in and to the Property (including any security interest therein), including but not limited to its right to take all actions and exercise all remedies under and pursuant to the Master Financing Lease.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material relating to the Certificates nor with respect to the validity or sufficiency of any undertaking for continuing disclosure. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the State and the Agency are required to comply with certain requirements after the date of execution and delivery of the Certificates in order to maintain the exclusion of the interest evidenced and represented by the Certificates from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Certificate proceeds and the Property financed or refinanced with Certificate proceeds, limitations on investing gross proceeds of the Certificates in higher yielding investments in certain circumstances, and the arbitrage rebate requirement to the extent applicable to gross proceeds of the Certificates. The State and the Agency have covenanted to comply with those requirements, but if the State or the Agency fail to comply with those requirements, interest evidenced and represented by the Certificates could become taxable retroactive to the date of execution and delivery of the Certificates. We have not undertaken and do not undertake to monitor compliance with such requirements.

Under the statutes, regulations, published rulings and court decisions existing on the date of this opinion and based on our review of such other documents, proceedings and certifications as we have deemed necessary, it is our opinion that:

1. The Master Financing Lease has been duly authorized, executed and delivered by the State, acting by and through the State Treasurer and the Agency, and, assuming the due authorization, execution and delivery thereof by the Corporation, constitutes a valid, binding and enforceable obligation of the State payable solely from the sources set forth therein. The Master Financing Lease does not constitute a general obligation of the State, and neither the full faith and credit nor the taxing power of the State is pledged to the payment thereof.

2. The obligation of the Agency to pay Agency Rent Payments during the term of its Financing Leases constitutes a valid and binding obligation of the Agency, subject to appropriation by the State Legislature and to Executive Order reduction by the Governor of the State. Such obligation does not constitute a general obligation of the State, and neither the full faith and credit nor taxing power of the State is pledged to the payment thereof.

3. Assuming (a) the due authorization, execution and delivery of the Master Assignment by the Corporation and the Fiscal Agent, (b) the due authorization, execution and delivery of the Trust Agreement by the Corporation and the Fiscal Agent, and (c) the due

authorization, execution and delivery of the Certificates by the Fiscal Agency, the Certificates are entitled to the benefits of the Master Assignment and the Trust Agreement.

5. Assuming compliance by the State and the Agency after the date of execution and delivery of the Certificates with applicable requirements of the Code, the Interest Component of each State Payment ("Interest") under the Master Financing Lease and received by the Owners of Certificates is excluded from gross income for federal income tax purposes and is not subject to the federal alternative minimum tax; however, Interest received by certain S corporations may be subject to tax, and Interest received by foreign corporations with United States branches may be subject to a foreign branch profits tax.

We express no opinion regarding any other federal tax consequences arising with respect to the ownership of the Certificates. Owners of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences.

Our opinions with respect to the enforceability of various documents are subject to limitations imposed by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

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APPENDIX D

EXCERPTS FROM THE STATE'S 2008 FINANCIAL STATEMENTS

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Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

December 17, 2008

The Honorable Christine Gregoire
Governor, State of Washington

Dear Governor Gregoire:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Washington as of and for the fiscal year ended June 30, 2008, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Workers' Compensation Fund of the Department of Labor and Industries, Washington's Lottery, Department of Retirement Systems, Local Government Investment Pool, University of Washington, Western Washington University, and the funds managed by the State Investment Board. Those financial statements represent part or all of the total assets, net assets, and revenues or additions of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information as follows:

Opinion Unit	Percent of Total Assets	Percent of Net Assets	Percent of Total Revenues/ Additions
Governmental Activities	15.6%	23.0%	7.7%
Business-Type Activities	73.9%	100%	57.7%
Higher Education Special Revenue Fund	52.4%	43.9%	50.9%
Higher Education Endowment Fund	96.5%	96.6%	80.9%
Higher Education Student Services Fund	68.6%	74.0%	81.3%
Workers' Compensation Fund	100%	100%	100%
Aggregate Discretely Presented Component Units and Remaining Fund Information	90.2%	93.7%	64.5%

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above mentioned entities and funds are based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of

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material misstatement. The financial statements of the Workers' Compensation Fund of the Department of Labor and Industries, Washington's Lottery, Department of Retirement Systems, Local Government Investment Pool, University of Washington, Western Washington University, and the funds managed by the State Investment Board were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

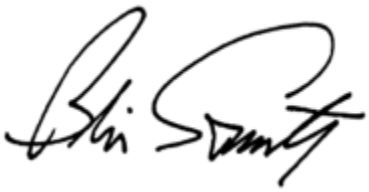
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Washington as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2008, on our consideration of the State of Washington's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the required supplementary information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have and the other auditors have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State of Washington's basic financial statements. The combining and individual fund financial statements and schedules for non-major funds listed in the table of contents are for purposes of additional analysis, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the introductory and statistical sections has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on it.



BRIAN SONNTAG, CGFM

STATE AUDITOR

MD&A
Management's Discussion and Analysis

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MD&A
Management's Discussion & Analysis

As managers of the state of Washington, we offer this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2008. We present this information in conjunction with the information included in our letter of transmittal, which can be found preceding this narrative, and with the state's financial statements, which follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- Total assets of the state of Washington exceeded its liabilities by $21.8 billion (reported as net assets). Of this amount, $(5.7) billion was reported as "unrestricted (deficit) net assets." A negative balance indicates that no funds were available for discretionary purposes.
- The state of Washington's governmental funds reported a combined ending fund balance of $12.5 billion, an increase of 3.1 percent compared with the prior year.
- Unreserved fund balance for the General Fund was $677 million, or 3.3 percent of total General Fund expenditures.
- The state's capital assets increased by $2.0 billion while total bond debt increased by $1.5 billion during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the state of Washington's basic financial statements, which include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The focus is on both the state as a whole (government-wide) and the major individual funds. The dual perspectives allow the reader to address relevant questions, broaden a basis for comparison (year-to-year or government-to-government), and enhance the state's accountability.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the state of Washington's finances, in a manner similar to a private sector business.

Statement of Net Assets. The *Statement of Net Assets* presents information on all of the state of Washington's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the state of Washington is improving or deteriorating.

Statement of Activities. The *Statement of Activities* presents information showing how the state's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The Statement of Activities is focused on both the gross and net cost of various activities (including governmental, business-type, and component unit). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.

Both of these government-wide financial statements distinguish functions of the state of Washington that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The governmental activities of the state of Washington include education, human services, transportation, natural resources, adult corrections, and general government.

The business-type activities of the state of Washington include the workers' compensation and unemployment compensation programs, as well as various higher education student services such as housing and dining.

The government-wide financial statements can be found on pages 37-39 of this report.

FUND FINANCIAL STATEMENTS

A fund is a group of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The state of Washington, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the state can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for three major funds and an aggregate total for all nonmajor funds. The state's major governmental funds are the General Fund, Higher Education Special Revenue Fund, and the Higher Education Endowment Permanent Fund. Individual fund data for the state's nonmajor governmental funds are provided in the form of combining statements elsewhere in this report. The governmental fund financial statements can be found on pages 42-45 of this report.

Proprietary Funds. The state of Washington maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds represent an accounting device used to accumulate and allocate costs internally among the state of Washington's various functions. The state of Washington uses internal service funds to account for general services such as motor pool, central stores, data processing services, risk management, employee health insurance, and printing services. Because internal service funds predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, but in greater detail. The proprietary fund financial statements provide separate information for the Workers' Compensation Fund, Unemployment Compensation Fund, and the Higher Education Student Services Fund, which are considered to be major funds, as well as an aggregated total for all nonmajor enterprise funds.

The internal service funds are combined for presentation purposes. Individual fund data for the state's nonmajor proprietary funds are provided in the form of combining statements elsewhere in this report. The proprietary fund financial statements can be found on pages 46-51 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the state of Washington's own programs. Washington's fiduciary funds include state administered pension plans. The accounting used for fiduciary funds is much like that used for proprietary funds. Individual fund data for the state's fiduciary funds are provided in the form of combining statements elsewhere in this report.

The fiduciary fund financial statements can be found on pages 52-53 of this report.

Component Units. Component units that are legally separate from the state and primarily serve or benefit those outside the state are discretely presented. They are either financially accountable to the state, or have relationships with the state such that exclusion would cause the state's financial statements to be misleading or incomplete. The state discretely reports one major component unit, the Washington State Public Stadium Authority, and four nonmajor component units.

Refer to Note 1 on pages 59-60 for more detailed information. Individual fund data for the state's nonmajor component units are provided in the form of combining statements elsewhere in this report. The component unit financial statements can be found on pages 54-55 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 57-142 of this report.

OTHER REQUIRED INFORMATION

In addition to this discussion and analysis, this report also presents required supplementary information on budgetary comparisons, pension plan and other post-employment benefits, funding progress, and infrastructure assets reported using the modified approach.

Required supplementary information can be found on pages 145-167 of this report.

The combining statements referred to earlier are presented immediately following the required supplementary information.

Combining and individual fund statements and schedules can be found on pages 171-219 of this report.

STATE OF WASHINGTON
Statement of Net Assets
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
ASSETS						
Current and other assets	$ 19,620	$ 17,995	$ 21,665	$ 20,395	$ 41,285	$ 38,390
Capital assets	27,692	25,834	1,995	1,846	29,687	27,680
Total assets	47,312	43,829	23,660	22,241	70,972	66,070
LIABILITIES						
Current and other liabilities	5,201	3,920	2,973	2,441	8,174	6,361
Long-term liabilities outstanding	16,014	14,379	24,971	22,566	40,985	36,945
Total liabilities	21,215	18,299	27,944	25,007	49,159	43,306
NET ASSETS						
Invested in capital assets, net of related debt	17,029	16,189	521	598	17,550	16,787
Restricted	5,524	5,072	4,406	3,892	9,930	8,964
Unrestricted (deficit)	3,544	4,269	(9,211)	(7,256)	(5,667)	(2,987)
Total net assets	$ 26,097	$ 25,530	$ (4,284)	$ (2,766)	$ 21,813	$ 22,764

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the state of Washington, total assets exceed liabilities by $21.8 billion at June 30, 2008 as compared to $22.8 billion as reported at June 30, 2007.

The largest portion of the state's net assets (80.5 percent for Fiscal Year 2008 as compared to 73.7 percent for Fiscal Year 2007) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The state of Washington uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the state of Washington's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the state of Washington's net assets (45.5 percent for Fiscal Year 2008 as compared to 39.4 percent for Fiscal Year 2007) represents resources that are subject to external restrictions on how they may be used. The remaining balance represents unrestricted (deficit) net assets. The state's overall negative balance is caused by the workers' compensation program that

provides time-loss, medical, disability and pension payments to qualifying individuals who sustain work-related injuries or develop occupational diseases as a result of their required work activities. The main benefit plans of the workers' compensation program are funded on rates that will keep the plans solvent in accordance with recognized actuarial principles.

The supplemental pension cost-of-living adjustments (COLAs) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

As previously mentioned, the state's activities are divided between governmental and business-type. The majority of support for governmental activities comes from taxes and intergovernmental grants, while business-type activities are supported primarily through user charges.

STATE OF WASHINGTON

Changes in Net Assets

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
REVENUES						
Program revenues:						
Charges for services	$ 3,912	$ 3,618	$ 5,364	$ 5,472	$ 9,276	$ 9,090
Operating grants and contributions	8,725	8,286	42	46	8,767	8,332
Capital grants and contributions	746	745	-	-	746	745
General revenues:						
Taxes	16,894	16,704	115	108	17,009	16,812
Interest and investment earnings	464	818	767	1,316	1,231	2,134
Total Revenues	30,741	30,171	6,288	6,942	37,029	37,113
EXPENSES						
General government	(1,609)	(1,525)	-	-	(1,609)	(1,525)
Education - K-12	(7,476)	(6,871)	-	-	(7,476)	(6,871)
Education - Higher education	(5,710)	(5,244)	-	-	(5,710)	(5,244)
Human services	(11,260)	(10,473)	-	-	(11,260)	(10,473)
Adult corrections	(1,020)	(811)	-	-	(1,020)	(811)
Natural resources and recreation	(931)	(983)	-	-	(931)	(983)
Transportation	(1,894)	(1,588)	-	-	(1,894)	(1,588)
Interest on long-term debt	(643)	(553)	-	-	(643)	(553)
Workers' compensation	-	-	(4,068)	(3,841)	(4,068)	(3,841)
Unemployment compensation	-	-	(791)	(697)	(791)	(697)
Higher education student services	-	-	(1,470)	(1,305)	(1,470)	(1,305)
Other business-type activities	-	-	(1,204)	(1,102)	(1,204)	(1,102)
Total Expenses	(30,543)	(28,048)	(7,533)	(6,945)	(38,076)	(34,993)
Excess (deficiency) of revenues over expenses before contributions to endowments, extraordinary loss, and transfers	198	2,123	(1,245)	(3)	(1,047)	2,120
Contributions to endowments	95	97	-	-	95	97
Transfers	272	204	(272)	(204)	-	-
Increase (decrease) in net assets	565	2,424	(1,517)	(207)	(952)	2,217
Net assets - July 1, as restated*	25,532	23,106	(2,767)	(2,559)	22,765	20,547
Net assets - June 30	$ 26,097	$ 25,530	$ (4,284)	$ (2,766)	$ 21,813	$ 22,764

* Fiscal Year 2008 beginning Net Assets balances were restated to reflect fund type reclassifications.

Governmental Activities. Governmental activities resulted in an increase in the state of Washington's net assets of $565 million. While the results of Fiscal Year 2008 governmental activities were positive overall, the increase was $1.9 million lower than the prior year's increase. A number of factors contributed to the decline:

- Tax revenues increased $189 million in Fiscal Year 2008 as compared to Fiscal Year 2007. While sales and use taxes reported a modest increase of $386 million, excise taxes were down $308 million. The decline in excise taxes reflects the decline in real estate activity both in number of transactions and in the average value per transaction.

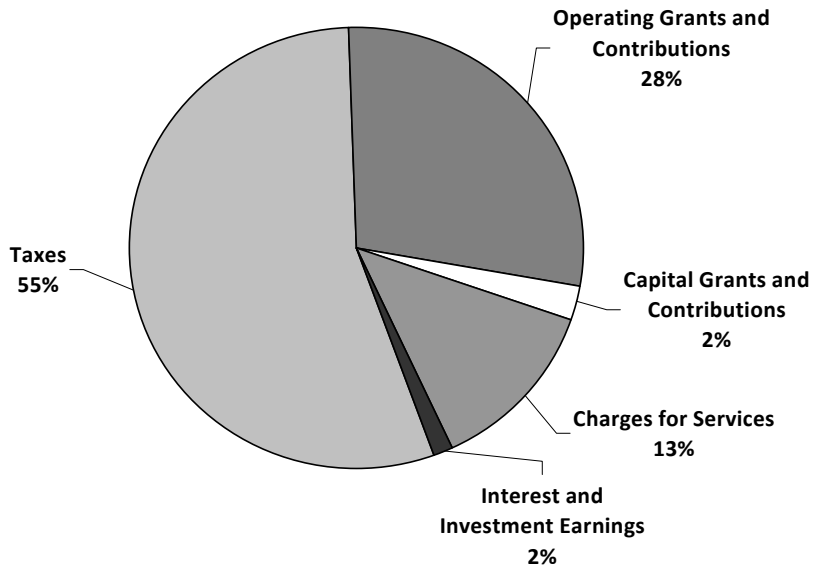
- Growth in expenses outpaced growth in revenues. Consistent with Fiscal Year 2007, the expenses for Human Services and Education comprised 80 percent of the total expenses for governmental activities. Human Services expenses grew by $787 million or 7.5 percent in Fiscal Year 2008 over Fiscal Year 2007. The increase relates to expanded access to health care for an additional 80,000 Washington children and increased levels of services for children and individuals with developmental disabilities. K-12 Education expenses grew by $605 million or 8.8 percent over the prior year. Contributing to the increase in expenses was an increase in K-12 funding of nearly $900 per student in Fiscal Year 2008. Additionally, Higher Education expenses grew by $466 million due to a number of factors including the addition of nearly 10,000 new slots for incoming students.

Business-Type Activities. Business-type activities decreased the state of Washington's net assets by $1.5 billion which included a $2.0 billion loss in the Workers' Compensation Fund. Key factors contributing to the operating results of business-type activities are:

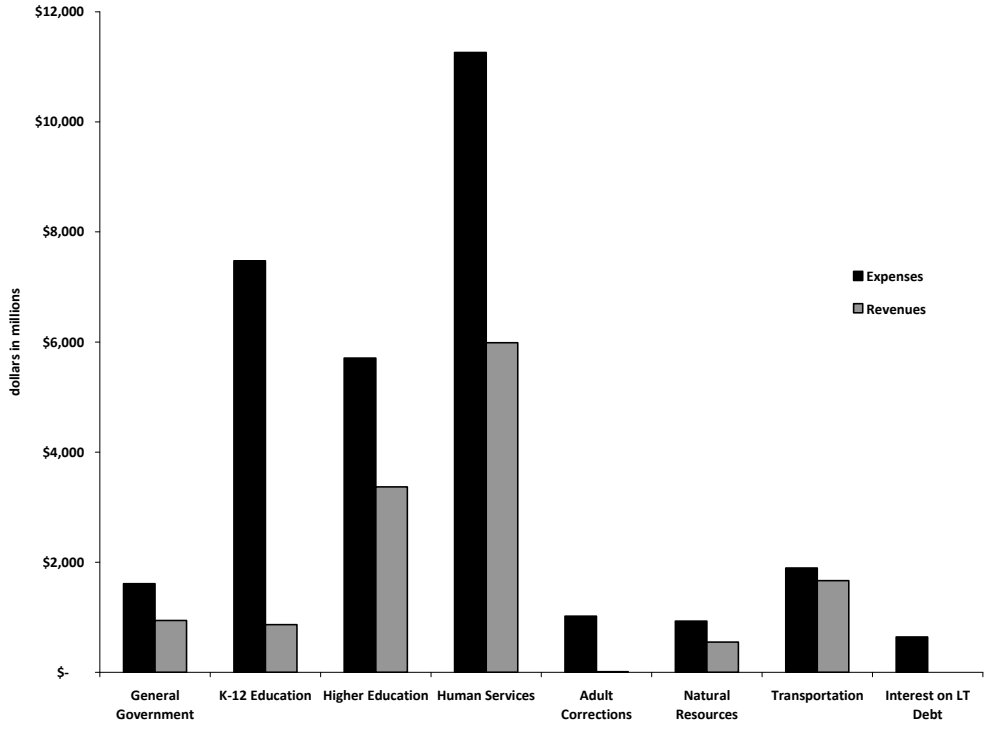
- The loss in the Workers' Compensation Fund in Fiscal Year 2008 was up $855 million over the loss in Fiscal Year 2007. A number of factors contributed to the increased loss including a decrease in premium revenue of $125 million, an increase in claims costs of $142 million, and a decrease in investment income of $514 million.

- While the Unemployment Compensation Fund reported an increase in net assets, the increase was $211 million less than the increase in Fiscal Year 2007. Washington's unemployment insurance program is an experience-based system. Since Washington has had relatively low unemployment in recent years, unemployment premium revenue has been declining. Fiscal Year 2008 premium revenues were $150 million less than Fiscal Year 2007. However, the softening of the state's unemployment rate at the end of Fiscal Year 2008 resulted in an increase in unemployment claims of $93 million compared to the prior year.

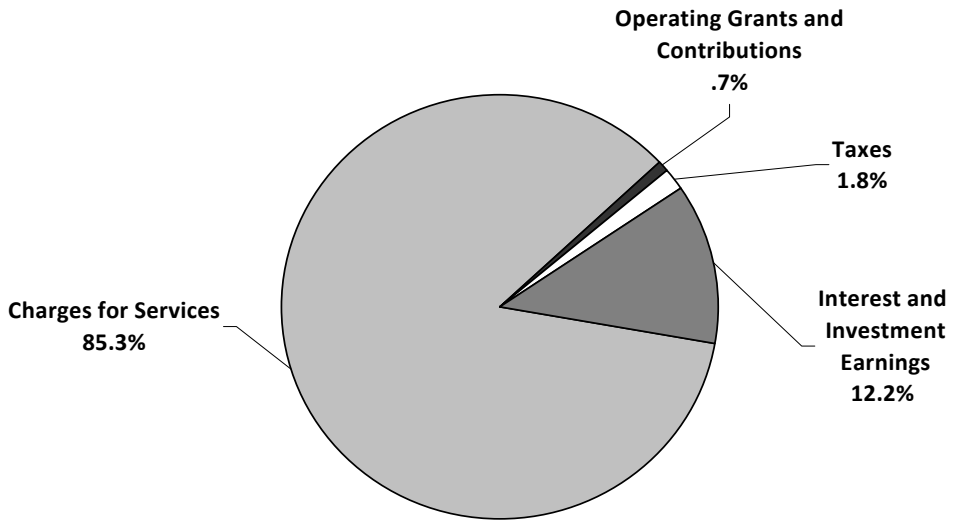
Revenues by Source: Governmental Activities



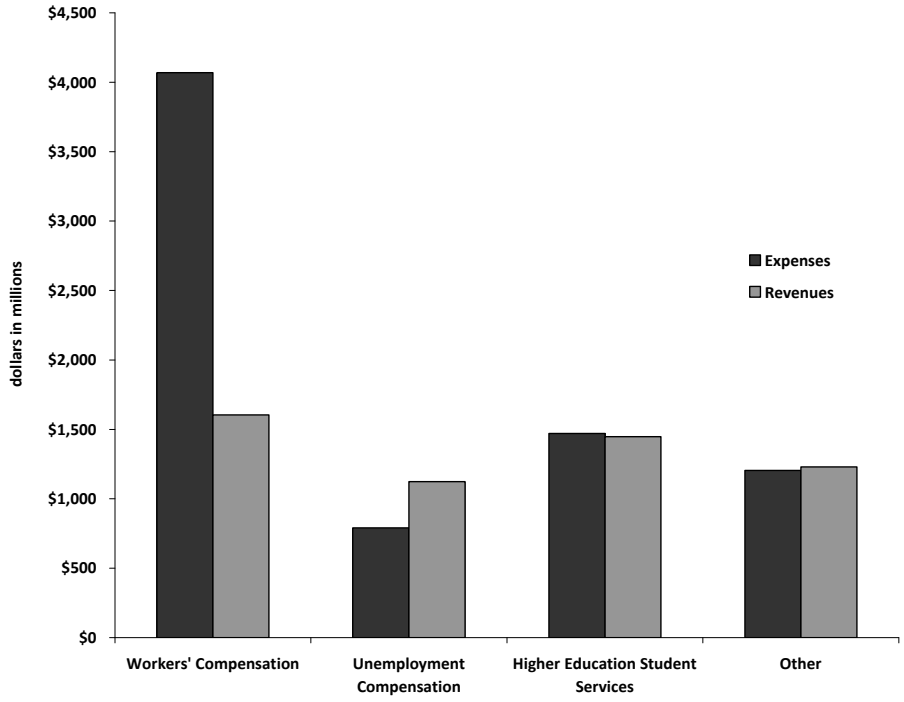
Program Revenues and Expenses: Governmental Activities



Revenues by Source: Business-Type Activities



Program Revenues and Expenses: Business-Type Activities



Financial Analysis of the Government's Funds

As noted earlier, the state of Washington uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. As previously discussed, the focus of the state of Washington's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the state of Washington's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the state of Washington. At the end of the fiscal year, total fund balance for the General Fund equaled $1.9 billion. Unreserved fund balance included $1.0 billion designated for working capital purposes. This amount relates to certain accrued revenues and is not considered by management to be available to spend.

The remaining unreserved fund balance of $677 million is undesignated and is considered available to spend. The fund balance of the state of Washington's General Fund increased by $16 million during Fiscal Year 2008.

STATE OF WASHINGTON
General Fund
(in millions of dollars)

	Fiscal Year 2008	Fiscal Year 2007	Difference Increase (Decrease)
REVENUES			
Taxes	$ 14,307	$ 14,097	$ 210
Federal grants	6,557	6,205	352
Investment revenue	123	106	17
Other	462	418	44
Total	21,449	20,826	623
EXPENDITURES			
Human services	10,921	10,191	730
Education	8,235	7,765	470
Other	1,144	1,134	10
Total	20,300	19,090	1,210
Net transfers in (out)	(1,145)	(1,715)	570
Other financing sources	12	5	7
Net increase (decrease) in fund balance	$ 16	$ 26	$ (10)

The moderation of growth in the state's economy is reflected in the modest growth in tax revenue collection. Expenditure growth continues to be concentrated in services and programs most vital to citizens – primarily human services, health care and public education. Overall revenues were up 3.0 percent while expenditures increased at a pace of 6.3 percent when compared to the prior year.

In addition to the General Fund, the state reports the Higher Education Special Revenue and Higher Education Endowment Funds as major governmental funds. The fund balance of the Higher Education Special Revenue Fund increased by $41 million in Fiscal Year 2008 as compared to $448 million in Fiscal Year 2007. The fund balance for the Higher Education Endowment Fund increased by $93 million.

The fund balance for nonmajor governmental funds increased by $227 million. The increase is due in part to other financing sources generated through bonds issued that exceeded capital outlays in Capital Projects Funds.

Proprietary Funds. The state of Washington's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The Workers' Compensation Fund, Unemployment Compensation Fund, and Higher Education Student Services Fund are major proprietary funds. The Workers' Compensation Fund reported a loss of $2.0 billion in Fiscal Year 2008. As noted previously, by state law, the supplemental pension cost-of-living adjustments (COLAs) granted for time-loss and disability payments are funded

on a pay-as-you-go basis. So, while claims are calculated and reported in accordance with recognized actuarial principles, the state is only allowed to collect enough revenue to fund current COLA payments.

The Unemployment Compensation Fund reported a 13 percent increase in unemployment compensation claims as compared to Fiscal Year 2007. This reflects the softening of the state's unemployment rate. Activity for the various nonmajor proprietary funds resulted in a decrease to net assets of $31 million. The largest component of the decrease is the loss of $57 million reported by the state's guaranteed college tuition program which is included in the Other Activities Fund. This loss was primarily caused by a reduction in investment earnings.

General Fund Budgetary Highlights

Differences between the original budget of the General Fund and the final amended budget reflect adjustments related to changes in the state's economy during the fiscal year ended June 30, 2008. While there were no significant increases or decreases to estimates during the year, changes to estimates are summarized as follows:

- Estimated resources decreased by $12 million over the course of the fiscal year. While federal grants-in-aid and other contracts and grants increased by a combined $234 million, taxes, charges for services and transfers reported decreases of $86 million, $59 million and $95 million respectively.
- Appropriated expenditure authority increased by $140 million over the course of the fiscal year. Increases were recorded in general government, human services and education of $123 million, $135 million and $72 million, respectively. The largest decrease was in transfers to other funds of $196 million.

The state did not overspend its legal spending authority for Fiscal Year 2008, the first year of the 2007-09 Biennium. Actual General Fund revenues and expenditures for Fiscal Year 2008 were 49 and 48 percent respectively of final budgeted revenues and appropriations for the 2007-09 Biennium.

Capital Assets, Infrastructure, Bond Debt Administration, and Economic Factors

Capital Assets. The state of Washington's investment in capital assets for its governmental and business-type activities as of June 30, 2008 amounted to $29.7 billion (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, museum and historical collections, buildings and other improvements, furnishings and equipment, as well as construction in progress.

Washington's Fiscal Year 2008 investment in capital assets, net of current year depreciation, was $2.0 billion, including increases to the state's transportation infrastructure of $1.4 billion and buildings of $341 million. The state's construction in progress includes both new construction and major improvements to state infrastructure and facilities including the state highway system, correctional facilities, ferry vessels and terminals, and buildings on the capitol and college and university campuses. Remaining commitments on these construction projects total $3.3 billion.

Additional information on the state of Washington's capital assets can be found in Note 6 beginning on page 92 of this report.

STATE OF WASHINGTON

Capital Assets - Net of Depreciation

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	$ 1,051	$ 1,012	$ 136	$ 135	$ 1,187	$ 1,147
Transportation infrastructure and other assets not depreciated	17,021	15,657	-	-	17,021	15,657
Buildings	5,731	5,545	1,492	1,337	7,223	6,882
Furnishings, equipment, and collections	1,392	1,399	135	138	1,527	1,537
Other improvements and infrastructure	1,013	985	58	58	1,071	1,043
Construction in progress	1,484	1,236	174	178	1,658	1,414
Total	$ 27,692	$ 25,834	$ 1,995	$ 1,846	$ 29,687	$ 27,680

Infrastructure. The state of Washington first reported infrastructure under the requirements of the Governmental Accounting Standards Board in Fiscal Year 2002. Transportation infrastructure reported includes the state highway system, emergency airfields, and two short rail lines. While the rail lines are reported net of depreciation, the state highway system and emergency airfields are reported using the modified approach. Under the modified approach, rather than recording depreciation, asset condition is reported.

The condition of these assets, along with the rating scales for pavement, bridges, rest areas, and airfields, and additional detail comparing budget to actual preservation and maintenance spending are available in the Required Supplementary Information beginning on page 159.

The Washington State Department of Transportation (WSDOT) accomplished a net addition of 78 lane miles and 7 bridges in Fiscal Year 2008. Amounts spent during Fiscal Year 2008 to maintain/preserve these infrastructure assets were not significantly different from estimated spending plans according to the biennial budget.

The state highway system and emergency airfields continue to meet established condition levels. No significant changes in condition levels were noted for pavements or bridges.

Detailed information about targeted and actual condition levels for roads, bridges, airfields and rest areas can be found in the Required Supplementary Information section of this report.

The safety of bridge structures is ensured through meticulous inspections and rating of the primary components of bridges by the WSDOT Bridge Preservation Office or local agency staff. The condition of all bridge decks, superstructures and substructures are rated based on these inspections. With the collapse of the I-35W bridge in Minnesota in the summer of 2007, much of the national discussion has focused on bridges being classified as structurally deficient. Structurally deficient means that a bridge requires repair or replacement of a certain component, such as cracked or spalled concrete or the entire bridge itself. If the condition is such that it no longer is able to carry its intended traffic loads, it may be weight restricted. No Washington bridges are rated unsafe for public travel.

Fiscal Year 2009 commitments made for ongoing infrastructure projects that extend beyond Fiscal Year 2008 amount to $1.8 billion representing 657 projects.

Bond Debt. At the end of Fiscal Year 2008, the state of Washington had general obligation bond debt outstanding of $13 billion, an increase of 11.4 percent over Fiscal Year 2007. This debt is secured by a pledge of the full faith and credit of the state. Additionally, the state had authorized $10.2 billion general obligation debt that remains unissued.

The state had revenue debt outstanding at June 30, 2008, of $1.6 billion, an increase of $142 million over Fiscal Year 2007. This increase is related to revenue bonds issued by state colleges and universities. Revenue bond debt is secured by specific sources of revenue.

STATE OF WASHINGTON

Bond Debt

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation (GO) bonds	$ 12,927	$ 11,573	$ 80	$ 101	$ 13,007	$ 11,674
Accreted interest on zero interest rate GO bonds	295	264	34	31	329	295
Revenue bonds	524	608	1,115	889	1,639	1,497
Total	$ 13,746	$ 12,445	$ 1,229	$ 1,021	$ 14,975	$ 13,466

During Fiscal Year 2008, the state issued general obligation debt, totaling $1.9 billion, for various capital and transportation projects. The state ranked 13th in a list of the top 100 state and local issuers ranked by amount financed by municipal issuers in calendar year 2007, according to The Bond Buyer's 2008 Yearbook.

The Washington State Constitution and the Revised Code of Washington limit the amount of general obligation (GO) debt that may be issued. The constraining limit for 2008 is the statutory limit. For the fiscal year ended June 30, 2008, the maximum GO debt authorized by the statutory debt limit was $10.1 billion.

This computation excludes specific bond issues and types that are not secured by general state revenues, such as motor vehicle fuel tax and reimbursable bonds. Of the $13 billion general obligation bond debt outstanding at June 30, 2008, $7.2 billion is subject to the limitation. Based on the debt limitation calculation, the debt service requirements as of June 30, 2008 did not exceed the authorized debt service limitation.

For further information on the debt limit, refer to the Certification of the Debt Limitation of the State of Washington, available from the Office of the State Treasurer or at: http://www.tre.wa.gov/BondDebt/csd-limit_FY2008.pdf.

By statutory provision, the State Finance Committee (SFC) is authorized to supervise and control the issuance of all state bonds, notes, or other evidences of indebtedness. The SFC is composed of the Governor, Lieutenant Governor, and State Treasurer, the latter serving as chairman.

As of June 30, 2008, the state of Washington's general obligation debt was rated Aa1 by Moody's Investor Service, AA+ by Standard & Poor's Rating Group (S & P), and AA by Fitch Ratings.

Additional information on the state's bond debt obligations is presented in Note 7 beginning on page 96 of this report. Additional information on the state's legal debt limit is presented in the statistical section on page 254 of this report.

Conditions with Expected Future Impact

Economic Factors. In the coming year, legislative leaders and management will be facing a number of challenges.

- Much slower economic growth is forecasted as the impacts of the financial crisis and recessionary national and international economics impact Washington. The slowing economy and slumping housing market will continue to have a negative effect on state revenue growth, particularly on retail sales and real estate excise taxes.

- Unemployment rates are expected to increase as non-farm payroll employment in Washington decreases in Fiscal Year 2009 by .04 percent, the first annual decline since 2003.

- Revenue growth is expected to be negatively impacted as economic changes to the tax system, including aerospace industry tax credits, take full effect by the end of the 2007-09 Biennium.

Financial Market Decline. Since June 30, 2008, the financial markets have declined significantly in response to the credit crisis that began with the sub-prime mortgagee collapse. The market turmoil has had a negative impact on the value of the state's investment portfolios. That said, state investors, in general, have long-term prudent investment strategies that incorporate high quality, well diversified investments. Historically, state investment portfolios have performed well over time, weathering market ups and downs.

New Financial Reporting Requirement. The state implemented the provisions of the Governmental Accounting Standards Board's Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for Fiscal Year 2008 reporting. The other postemployment benefits (OPEB) offered by the state are set each biennium as part of the budget process.

The state is not legally or contractually required to provide the OPEB and is funding them on a pay-as-you-go basis. The state's annual OPEB cost for Fiscal Year 2008 was $314 million and its OPEB contributions were $68 million, resulting in a net OPEB obligation at the end of the year of $246 million. As long as the state continues to offer OPEB and retains the pay-as-you-go funding strategy, the obligation will increase each year.

Rainy Day Fund. In November 2007, Washington State voters ratified Engrossed Substitute Senate Joint Resolution 8206, amending the state's Constitution and establishing the Budget Stabilization Account.

Beginning July 1, 2008, the state is required to transfer into the Budget Stabilization Account an amount equal to 1 percent of general state revenues for the fiscal year. Moneys may be withdrawn and appropriated in very limited circumstances that are detailed in the Constitution.

On July 1, 2008, the balance in the Emergency Reserve Fund of $303 million was transferred to the Budget Stabilization Account. It is estimated that $133 million will be transferred from the General Fund to the Budget Stabilization Account in Fiscal Year 2009 representing 1 percent of the year's general state revenues.

Requests for Information

This financial report is designed to provide a general overview of the state of Washington's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Financial Management, PO Box 43113, Olympia, WA 98504-3113.

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Basic Financial Statements

Governmental-wide Financial Statements

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Statement of Net Assets

June 30, 2008

(expressed in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and pooled investments	$ 7,849,675	$ 7,377,465	$ 15,227,140	$ 58,554
Taxes receivable (net of allowance)	2,988,925	5,072	2,993,997	-
Other receivables (net of allowance)	1,172,710	1,275,103	2,447,813	1,401
Internal balances (net)	45,620	(45,620)	-	-
Due from other governments	3,266,263	63,601	3,329,864	-
Inventories	97,091	73,510	170,601	-
Investments, noncurrent	4,035,851	12,547,911	16,583,762	22,041
Other assets	163,218	368,232	531,450	42,754
Capital assets (Note 6):				
Non-depreciable assets	19,556,275	309,902	19,866,177	34,767
Depreciable assets, net of depreciation	8,136,149	1,685,445	9,821,594	368,940
Total capital assets, net of depreciation	27,692,424	1,995,347	29,687,771	403,707
Total Assets	$ 47,311,777	$ 23,660,621	$ 70,972,398	$ 528,457
LIABILITIES				
Accounts payable	$ 1,393,881	$ 125,539	$ 1,519,420	$ 13,221
Contracts and retainage payable	156,124	20,087	176,211	2,908
Accrued liabilities	669,816	255,998	925,814	3,826
Obligations under security lending agreements	1,274,148	2,487,403	3,761,551	-
Due to other governments	777,673	28,928	806,601	-
Unearned revenue	929,866	55,199	985,065	2,487
Long-term liabilities (Note 7):				
Due within one year	1,037,879	2,152,083	3,189,962	-
Due in more than one year	14,975,785	22,819,321	37,795,106	34,934
Total Liabilities	21,215,172	27,944,558	49,159,730	57,376
NET ASSETS				
Invested in capital assets, net of related debt	17,028,412	520,998	17,549,410	365,180
Restricted for:				
Unemployment compensation	-	4,406,380	4,406,380	-
Other purposes	1,894,460	-	1,894,460	24,092
Capital projects	442,994	-	442,994	-
Expendable permanent fund principal	1,871,521	-	1,871,521	-
Nonexpendable permanent endowments	1,315,113	-	1,315,113	-
Unrestricted (deficit)	3,544,105	(9,211,315)	(5,667,210)	81,809
Total Net Assets	$ 26,096,605	$ (4,283,937)	$ 21,812,668	$ 471,081

The notes to the financial statements are an integral part of this statement.

Statement of Activities

For the Fiscal Year Ended June 30, 2008

(expressed in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General government	$ 1,609,142	$ 651,364	$ 288,126	$ 2,375
Education - elementary and secondary (K-12)	7,476,060	12,798	853,442	-
Education - higher education	5,709,645	1,718,092	1,636,376	12,568
Human services	11,259,878	250,623	5,735,256	-
Adult corrections	1,019,980	9,459	2,275	-
Natural resources and recreation	931,030	375,669	146,935	23,286
Transportation	1,894,289	894,379	62,981	708,041
Interest on long-term debt	642,914	-	-	-
Total Governmental Activities	30,542,938	3,912,384	8,725,391	746,270
Business-Type Activities:				
Workers' compensation	4,068,599	1,596,174	7,823	-
Unemployment compensation	790,538	1,093,586	30,070	-
Higher education student services	1,470,168	1,443,756	3,909	-
Other	1,203,546	1,230,461	16	-
Total Business-Type Activities	7,532,851	5,363,977	41,818	-
Total Primary Government	$ 38,075,789	$ 9,276,361	$ 8,767,209	$ 746,270
COMPONENT UNITS	$ 29,633	$ 16,055	$ 240	$ 829
Total Component Units	$ 29,633	$ 16,055	$ 240	$ 829

General Revenues:
- Taxes - sales and use
- Taxes - business and occupation
- Taxes - property
- Taxes - motor vehicle and fuel
- Taxes - excise
- Taxes - other
- Interest and investment earnings

Total general revenues

Excess (deficiency) of revenues over expenses before contributions to endowments, extraordinary loss, and transfers

Contributions to endowments

Transfers

Change in Net Assets

Net assets - Beginning, as restated

Net assets - Ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (667,277)	$ -	$ (667,277)	
(6,609,820)	-	(6,609,820)	
(2,342,609)	-	(2,342,609)	
(5,273,999)	-	(5,273,999)	
(1,008,246)	-	(1,008,246)	
(385,140)	-	(385,140)	
(228,888)	-	(228,888)	
(642,914)	-	(642,914)	
(17,158,893)	-	(17,158,893)	
-	(2,464,602)	(2,464,602)	
-	333,118	333,118	
-	(22,503)	(22,503)	
-	26,931	26,931	
-	(2,127,056)	(2,127,056)	
(17,158,893)	(2,127,056)	(19,285,949)	
			$ (12,509)
			$ (12,509)
8,341,000	-	8,341,000	-
2,850,548	-	2,850,548	-
1,741,739	-	1,741,739	-
1,169,900	-	1,169,900	-
780,953	61,507	842,460	-
2,009,002	53,278	2,062,280	-
463,899	766,644	1,230,543	6,519
17,357,041	881,429	18,238,470	6,519
198,148	(1,245,627)	(1,047,479)	(5,990)
94,900	-	94,900	-
271,600	(271,600)	-	-
564,648	(1,517,227)	(952,579)	(5,990)
25,531,957	(2,766,710)	22,765,247	477,071
$ 26,096,605	$ (4,283,937)	$ 21,812,668	$ 471,081

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Basic Financial Statements

Fund Financial Statements

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2008
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	$ 1,185,063	$ 866,218	$ 689,597	$ 4,442,032	$ 7,182,910
Investments	36,772	806,581	2,903,090	241,263	3,987,706
Taxes receivable (net of allowance)	2,875,042	15,955	-	97,928	2,988,925
Other receivables (net of allowance)	355,105	295,832	41,988	618,372	1,311,297
Due from other funds	132,884	198,713	122	392,107	723,826
Due from other governments	899,570	130,566	-	2,119,069	3,149,205
Inventories	25,649	12,670	-	38,807	77,126
Total Assets	$ 5,510,085	$ 2,326,535	$ 3,634,797	$ 7,949,578	$ 19,420,995
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 878,994	$ 120,379	$ -	$ 335,096	$ 1,334,469
Contracts and retainages payable	29,655	2,824	3,089	102,947	138,515
Accrued liabilities	236,562	129,093	14,202	120,367	500,224
Obligations under security lending agreements	271,091	190,763	584,704	197,926	1,244,484
Due to other funds	274,994	127,300	2,078	334,624	738,996
Due to other governments	550,314	15,632	-	103,924	669,870
Deferred revenues	1,328,819	188,843	19,690	694,194	2,231,546
Claims and judgments payable	20,868	-	-	10,396	31,264
Total Liabilities	3,591,297	774,834	623,763	1,899,474	6,889,368
Fund Balances:					
Reserved for:					
Encumbrances	112,071	184,819	-	911,064	1,207,954
Inventories	19,044	12,670	-	38,807	70,521
Permanent funds	-	-	3,011,034	175,600	3,186,634
Other specific purposes	69,679	192,412	-	2,023,438	2,285,529
Unreserved, designated for, reported in:					
Working capital	1,040,563	-	-	-	1,040,563
Higher education	-	155,679	-	-	155,679
Special revenue funds	-	-	-	220	220
Debt service funds	-	-	-	362,122	362,122
Unreserved, undesignated	677,431	1,006,121	-	-	1,683,552
Unreserved, undesignated reported in:					
Special revenue funds	-	-	-	2,432,112	2,432,112
Capital project funds	-	-	-	106,741	106,741
Total Fund Balances	1,918,788	1,551,701	3,011,034	6,050,104	12,531,627
Total Liabilities and Fund Balances	$ 5,510,085	$ 2,326,535	$ 3,634,797	$ 7,949,578	$ 19,420,995

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Balance Sheet to the Statement of Net Assets
GOVERNMENTAL FUNDS
June 30, 2008
(expressed in thousands)

Total Fund Balances for Governmental Funds		$ 12,531,627
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Non-depreciable assets	$ 19,532,045	
Depreciable assets	13,265,636	
Less: Accumulated depreciation	(5,561,720)	
Total capital assets		27,235,961
Some of the state's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		1,305,821
Unmatured interest on general obligation bonds is not recognized in the funds until due.		(280,610)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		163,558
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Bonds and other financing contracts payable	$ (13,673,474)	
Accreted interest on bonds	(295,056)	
Compensated absences	(497,558)	
Other postemployment obligations	(221,375)	
Unfunded pension obligation	(113,416)	
Claims and judgments	(28,278)	
Other obligations	(30,595)	
Total long-term liabilities		(14,859,752)
Net Assets of Governmental Activities		$ 26,096,605

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
REVENUES					
Retail sales and use taxes	$ 8,256,288	$ -	$ -	$ 84,712	$ 8,341,000
Business and occupation taxes	2,760,425	-	-	90,123	2,850,548
Property taxes	1,494,542	-	-	247,197	1,741,739
Excise taxes	707,272	-	-	73,681	780,953
Motor vehicle and fuel taxes	-	-	-	1,169,900	1,169,900
Other taxes	1,088,561	194,638	-	724,630	2,007,829
Licenses, permits, and fees	97,493	628	-	812,543	910,664
Timber sales	2,847	-	18,995	106,380	128,222
Other contracts and grants	162,238	613,894	-	25,510	801,642
Federal grants-in-aid	6,556,642	1,089,377	-	1,120,954	8,766,973
Charges for services	56,614	1,475,957	1	538,541	2,071,113
Investment income (loss)	123,303	108,416	58,857	173,323	463,899
Miscellaneous revenue	84,881	124,681	8,198	498,133	715,893
Escheated property	57,444	-	-	-	57,444
Contributions and donations	-	-	94,900	-	94,900
Total Revenues	21,448,550	3,607,591	180,951	5,665,627	30,902,719
EXPENDITURES					
Current:					
General government	662,824	-	-	590,857	1,253,681
Human services	10,921,497	-	-	1,193,810	12,115,307
Natural resources and recreation	336,242	-	-	561,162	897,404
Transportation	41,818	1,906	-	1,758,860	1,802,584
Education	8,234,996	3,571,524	413	1,053,428	12,860,361
Intergovernmental	30,697	-	-	348,524	379,221
Capital outlays	56,872	146,291	4,370	2,056,501	2,264,034
Debt service:					
Principal	15,014	10,070	-	561,264	586,348
Interest	330	7,812	2	580,510	588,654
Total Expenditures	20,300,290	3,737,603	4,785	8,704,916	32,747,594
Excess of Revenues Over (Under) Expenditures	1,148,260	(130,012)	176,166	(3,039,289)	(1,844,875)
OTHER FINANCING SOURCES (USES)					
Bonds issued	-	-	-	1,891,150	1,891,150
Payments to refunded bond escrow agents	-	-	-	(58,125)	(58,125)
Other debt issued	12,084	6,154	-	867	19,105
Bond issue premium	-	-	-	123,487	123,487
Capital lease acquisitions	26	69	-	-	95
Transfers in	72,007	291,663	14,357	2,249,697	2,627,724
Transfers (out)	(1,216,749)	(127,062)	(97,145)	(940,546)	(2,381,502)
Total Other Financing Sources (Uses)	(1,132,632)	170,824	(82,788)	3,266,530	2,221,934
Net Change in Fund Balances	15,628	40,812	93,378	227,241	377,059
Fund Balances - Beginning, as restated	1,903,160	1,510,889	2,917,656	5,822,863	12,154,568
Fund Balances - Ending	$ 1,918,788	$ 1,551,701	$ 3,011,034	$ 6,050,104	$ 12,531,627

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

Net Change in Fund Balances - Total Governmental Funds		$ 377,059
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlays	$ 2,309,232	
Less: Depreciation expense	(462,485)	1,846,747
Some revenues in the Statement of Activities do not provide current financial resources, and therefore, are deferred in governmental funds. Also, revenues related to prior periods that became available during the current period are reported in governmental funds but are eliminated in the Statement of Activities. This amount is the net adjustment.		(61,435)
Accrued interest on general obligation bonds is reported as an expense in the Statement of Activities but does not use current financial resources and, therefore, is not recognized in governmental funds.		(54,369)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net assets of the internal service funds is reported with governmental activities.		(8,403)
Bond proceeds and other financing contracts provide current financial resources to governmental funds, while the repayment of the related debt principal consumes those financial resources. These transactions, however, have no effect on net assets. In the current period, these amounts consist of:		
Bonds and other financing contracts issued	$ (1,852,225)	
Principal payments on bonds and other financing contracts	586,348	
Accreted interest on bonds	(30,245)	(1,296,122)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized in governmental funds. Also, some payments related to prior periods are recognized in governmental funds but are eliminated in the Statement of Activities. In the current period, the net adjustments consist of:		
Unfunded pension obligations	$ (16,701)	
Compensated absences	(14,455)	
Claims and judgments	3,963	
Other postemployment obligations	(221,375)	
Other obligations	9,739	(238,829)
Change in Net Assets of Governmental Activities		$ 564,648

The notes to the financial statements are an integral part of this statement.

Statement of Fund Net Assets
PROPRIETARY FUNDS
June 30, 2008
(expressed in thousands)

	Business-Type Activities Enterprise Funds					Governmental Activities
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Internal Service Funds
ASSETS						
Current Assets:						
Cash and pooled investments	$ 29,716	$ 4,019,881	$ 484,087	$ 294,216	$ 4,827,900	$ 620,253
Investments	2,152,094	-	2,996	394,475	2,549,565	30,075
Taxes receivable (net of allowance)	-	-	-	5,072	5,072	-
Other receivables (net of allowance)	714,033	385,380	135,751	39,939	1,275,103	18,411
Due from other funds	2,279	2,369	38,564	21,011	64,223	183,253
Due from other governments	899	14,777	33,470	3,650	52,796	7,283
Inventories	141	-	39,529	33,840	73,510	19,966
Prepaid expenses	7	-	14,205	350	14,562	4,449
Total Current Assets	2,899,169	4,422,407	748,602	792,553	8,862,731	883,690
Noncurrent Assets:						
Investments, noncurrent	11,019,221	-	176,584	1,352,106	12,547,911	64,582
Other noncurrent assets	131,542	-	53,224	168,904	353,670	129
Capital assets:						
Land and other non-depreciable assets	3,240	-	53,663	79,072	135,975	3,836
Buildings	62,705	-	1,626,261	407,397	2,096,363	123,257
Other improvements	1,638	-	41,453	15,516	58,607	17,923
Furnishings, equipment, and collections	63,057	-	338,787	63,413	465,257	746,364
Infrastructure	-	-	34,909	-	34,909	478
Accumulated depreciation	(67,435)	-	(758,064)	(144,192)	(969,691)	(455,791)
Construction in progress	4,188	-	132,774	36,965	173,927	20,395
Total Noncurrent Assets	11,218,156	-	1,699,591	1,979,181	14,896,928	521,173
Total Assets	14,117,325	4,422,407	2,448,193	2,771,734	23,759,659	1,404,863
LIABILITIES						
Current Liabilities:						
Accounts payable	6,809	-	80,809	37,921	125,539	59,410
Contracts and retainages payable	2,611	-	11,250	53,126	66,987	17,548
Accrued liabilities	157,093	6,072	76,932	131,541	371,638	32,653
Obligations under security lending agreements	2,152,094	-	-	335,309	2,487,403	29,662
Bonds and notes payable	3,625	-	37,405	54,838	95,868	22,094
Due to other funds	7,897	1,006	63,744	32,781	105,428	121,251
Due to other governments	-	8,949	9	13,583	22,541	21
Unearned revenues	20,338	-	34,765	96	55,199	4,141
Claims and judgments payable	1,890,542	-	-	3,130	1,893,672	164,851
Total Current Liabilities	4,241,009	16,027	304,914	662,325	5,224,275	451,631
Noncurrent Liabilities:						
Claims and judgments payable	19,996,606	-	-	4,572	20,001,178	602,359
Bonds and notes payable	25,930	-	1,131,383	254,403	1,411,716	157,097
Other long-term liabilities	19,177	-	28,377	1,358,873	1,406,427	30,218
Total Noncurrent Liabilities	20,041,713	-	1,159,760	1,617,848	22,819,321	789,674
Total Liabilities	24,282,722	16,027	1,464,674	2,280,173	28,043,596	1,241,305
NET ASSETS						
Invested in capital assets, net of related debt	37,838	-	300,996	182,164	520,998	277,271
Restricted for:						
Unemployment compensation	-	4,406,380	-	-	4,406,380	-
Unrestricted	(10,203,235)	-	682,523	309,397	(9,211,315)	(113,713)
Total Net Assets (Deficit)	$ (10,165,397)	$ 4,406,380	$ 983,519	$ 491,561	$ (4,283,937)	$ 163,558

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Fund Net Assets
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	Business-Type Activities Enterprise Funds					Governmental Activities
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES						
Sales	$ -	$ -	$ 115,182	$ 612,620	$ 727,802	$ 131,529
Less: Cost of goods sold	-	-	84,175	444,059	528,234	105,272
Gross profit	-	-	31,007	168,561	199,568	26,257
Charges for services	110	-	1,223,302	61,828	1,285,240	682,227
Premiums and assessments	1,563,953	1,081,019	-	-	2,644,972	1,182,926
Federal aid for unemployment insurance benefits	-	30,070	-	-	30,070	-
Lottery ticket proceeds	-	-	-	521,103	521,103	-
Miscellaneous revenue	32,150	12,567	100,866	8,655	154,238	46,126
Total Operating Revenues	1,596,213	1,123,656	1,355,175	760,147	4,835,191	1,937,536
OPERATING EXPENSES						
Salaries and wages	133,773	-	546,354	93,458	773,585	293,087
Employee benefits	46,911	-	123,304	36,336	206,551	83,434
Personal services	7,533	-	12,655	26,925	47,113	22,231
Goods and services	72,567	-	548,769	129,462	750,798	342,156
Travel	4,183	-	20,069	3,056	27,308	5,381
Premiums and claims	3,727,966	790,538	1	34	4,518,539	1,175,717
Lottery prize payments	-	-	-	314,923	314,923	-
Depreciation and amortization	10,281	-	67,868	16,201	94,350	68,286
Guaranteed education tuition expense	-	-	-	62,800	62,800	-
Miscellaneous expenses	63,442	-	12,861	288	76,591	828
Total Operating Expenses	4,066,656	790,538	1,331,881	683,483	6,872,558	1,991,120
Operating Income (Loss)	(2,470,443)	333,118	23,294	76,664	(2,037,367)	(53,584)
NONOPERATING REVENUES (EXPENSES)						
Earnings (loss) on investments	486,261	182,237	65,768	32,378	766,644	18,281
Interest expense	(1,942)	-	(54,114)	(37,328)	(93,384)	(8,948)
Distributions to other governments	-	-	-	(38,674)	(38,674)	-
Other revenue (expenses)	7,785	-	8,315	141,054	157,154	5,636
Total Nonoperating Revenues (Expenses)	492,104	182,237	19,969	97,430	791,740	14,969
Income (Loss) Before Contributions and Transfers	(1,978,339)	515,355	43,263	174,094	(1,245,627)	(38,615)
Capital contributions	-	-	-	-	-	4,834
Transfers in	21,453	-	69,544	23,241	114,238	107,894
Transfers (out)	(22,956)	-	(134,142)	(228,740)	(385,838)	(82,516)
Net Contributions and Transfers	(1,503)	-	(64,598)	(205,499)	(271,600)	30,212
Change in Net Assets	(1,979,842)	515,355	(21,335)	(31,405)	(1,517,227)	(8,403)
Net Assets (Deficit) - Beginning, as restated	(8,185,555)	3,891,025	1,004,854	522,966	(2,766,710)	171,961
Net Assets (Deficit) - Ending	$ (10,165,397)	$ 4,406,380	$ 983,519	$ 491,561	$ (4,283,937)	$ 163,558

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 1,399,135	$ 1,110,451	$ 1,362,333	$ 1,348,899
Payments to suppliers	(1,768,524)	(791,763)	(677,284)	(1,060,613)
Payments to employees	(174,539)	-	(650,947)	(124,403)
Other receipts (payments)	32,150	40,200	100,866	8,655
Net Cash Provided (Used) by Operating Activities	(511,778)	358,888	134,968	172,538
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	21,453	-	69,544	23,241
Transfers out	(22,956)	-	(134,142)	(228,740)
Operating grants and donations received	7,876	-	4,121	11
Taxes and license fees collected	4	-	-	142,218
Distributions to other governments	-	-	-	(38,674)
Other noncapital financing sources	-	-	-	4,464
Net Cash Provided (Used) by Noncapital Financing Activities	6,377	-	(60,477)	(97,480)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest paid	(1,389)	-	(52,703)	(10,468)
Principal payments on long-term capital financing	(3,526)	-	(129,558)	(22,574)
Proceeds from long-term capital financing	-	-	223,054	23,220
Proceeds from sale of capital assets	35	-	14,752	1,516
Acquisitions of capital assets	(4,758)	-	(216,846)	(36,398)
Net Cash Provided (Used) by Capital and Related Financing Activities	(9,638)	-	(161,301)	(44,704)
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipt of interest	923,614	182,237	19,849	113,589
Proceeds from sale of investment securities	6,873,370	-	104,600	574,760
Purchases of investment securities	(7,307,097)	-	(14,688)	(732,300)
Net Cash Provided (Used) by Investing Activities	489,887	182,237	109,761	(43,951)
Net Increase (Decrease) in Cash and Pooled Investments	(25,152)	541,125	22,951	(13,597)
Cash and Pooled Investments, July 1	54,868	3,478,756	461,136	307,813
Cash and Pooled Investments, June 30	$ 29,716	$ 4,019,881	$ 484,087	$ 294,216
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ (2,470,443)	$ 333,118	$ 23,294	$ 76,664
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:				
Depreciation	10,281	-	67,868	16,201
Change in Assets: Decrease (Increase)				
Receivables (net of allowance)	(108,875)	26,996	22,916	(21,170)
Inventories	27	-	(4,057)	11,944
Prepaid expenses	23	-	3,304	969
Change in Liabilities: Increase (Decrease)				
Payables	2,057,209	(1,226)	21,643	87,930
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	$ (511,778)	$ 358,888	$ 134,968	$ 172,538

The notes to the financial statements are an integral part of this statement.

Continued

	Governmental Activities	
	Total	Internal Service Funds
	$ 5,220,818	$ 1,930,873
	(4,298,184)	(1,542,042)
	(949,889)	(374,448)
	181,871	46,110
	154,616	60,493
	114,238	107,894
	(385,838)	(82,516)
	12,008	5,685
	142,222	-
	(38,674)	-
	4,464	(3)
	(151,580)	31,060
	(64,560)	(8,957)
	(155,658)	(26,920)
	246,274	38,134
	16,303	5,320
	(258,002)	(79,957)
	(215,643)	(72,380)
	1,239,289	14,855
	7,552,730	230,726
	(8,054,085)	(228,437)
	737,934	17,144
	525,327	36,317
	4,302,573	583,936
	$ 4,827,900	$ 620,253
	$ (2,037,367)	$ (53,584)
	94,350	68,286
	(80,133)	(65,414)
	7,914	(1,297)
	4,296	(968)
	2,165,556	113,470
	$ 154,616	$ 60,493

Statement of Cash Flows
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	Business-Type Activities Enterprise Funds			
	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Contributions of capital assets	$ -	$ -	$ -	$ -
Amortization of annuity prize liability	-	-	-	22,659
Increase (decrease) in fair value of investments	421,234	-	(1,795)	(79,982)
Refunding bonds issued	-	-	90,975	-
Refunded bonds redeemed	-	-	(91,540)	-
Amortization of debt premium (issue costs/discount)	-	-	361	-
Accretion of interest on zero coupon bonds	-	-	-	(3,825)
Increase in ownership of joint venture	-	-	48,242	-

The notes to the financial statements are an integral part of this statement.

Concluded

Total	Governmental Activities Internal Service Funds
$ -	$ 4,834
22,659	-
339,457	1,020
90,975	-
(91,540)	-
361	-
(3,825)	-
48,242	-

Statement of Fiduciary Net Assets
FIDUCIARY FUNDS
June 30, 2008
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans	Agency Funds
ASSETS				
Current Assets:				
Cash and pooled investments	$ 9,031	$ 2,241,849	$ 336,581	$ 281,662
Investments	-	3,446,978	-	-
Receivables, pension and other employee benefit plans:				
Employers	-	-	112,936	-
Members (net of allowance)	-	-	3,056	-
Interest and dividends	-	-	189,361	-
Investment trades pending	-	-	372,817	-
Other receivables, all other funds	-	18,655	-	15,609
Due from other funds	-	-	46,251	2,583
Due from other governments	-	-	-	36,732
Total Current Assets	9,031	5,707,482	1,061,002	336,586
Noncurrent Assets:				
Investments, noncurrent, pension and other employee benefit plans:				
Public equity	-	-	28,622,027	-
Fixed income	-	-	13,626,393	-
Private equity	-	-	13,837,207	-
Real estate	-	-	8,688,560	-
Security lending	-	-	3,979,830	-
Liquidity	-	-	1,612,050	-
Tangible asset	-	-	447,753	-
Other	-	-	422,013	-
Investments, noncurrent, all other funds	23,082	1,024,781	-	54,916
Other noncurrent assets	-	-	-	63,830
Capital assets:				
Furnishings, equipment, and collections	81	-	-	-
Accumulated depreciation	(81)	-	-	-
Total Noncurrent Assets	23,082	1,024,781	71,235,833	118,746
Total Assets	32,113	6,732,263	72,296,835	$ 455,332
LIABILITIES				
Accounts payable	121	-	-	$ 21,487
Contracts and retainages payable	-	-	-	39,466
Accrued liabilities	149	291	961,454	115,001
Obligations under security lending agreements	-	113,595	3,971,818	16,932
Due to other funds	-	46	47,647	6,768
Due to other governments	-	-	-	191,848
Unearned revenues	-	-	812	-
Other long-term liabilities	-	-	-	63,830
Total Liabilities	270	113,932	4,981,731	$ 455,332
NET ASSETS				
Net assets held in trust for:				
Pension benefits	-	-	64,880,910	
Deferred compensation participants	-	-	2,434,194	
Local government pool participants	-	6,618,331	-	
Individuals, organizations & other governments	31,843	-	-	
Total Net Assets	$ 31,843	$ 6,618,331	$ 67,315,104	

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	Private-Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans
ADDITIONS			
Contributions:			
Employers	$ -	$ -	$ 907,675
Members	-	-	907,231
State	-	-	60,546
Pool participants	-	14,895,563	188,735
Total Contributions	-	14,895,563	2,064,187
Investment Income:			
Net appreciation (depreciation) in fair value	-	-	(2,958,775)
Interest and dividends	-	267,102	2,095,780
Less: Investment expenses	-	-	(246,356)
Net Investment Income	-	267,102	(1,109,351)
Other Additions:			
Escheated property	82,899	-	-
Transfers from other pension plans	-	-	330,005
Other contracts, grants and miscellaneous	43	1	835
Total Other Additions	82,942	1	330,840
Total Additions	82,942	15,162,666	1,285,676
DEDUCTIONS			
Pension benefits	-	-	2,502,419
Pension refunds	-	-	208,482
Transfers to other pension plans	-	-	330,005
Administrative expenses	3,057	3,897	3,797
Distributions to pool participants	-	14,349,674	135,876
Payments to or on behalf of individuals, organizations and other governments in accordance with trust agreements	101,373	-	-
Total Deductions	104,430	14,353,571	3,180,579
Net Increase (Decrease)	(21,488)	809,095	(1,894,903)
Net Assets - Beginning, as restated	53,331	5,809,236	69,210,007
Net Assets - Ending	$ 31,843	$ 6,618,331	$ 67,315,104

The notes to the financial statements are an integral part of this statement.

Statement of Fund Net Assets
COMPONENT UNITS
June 30, 2008
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
ASSETS			
Current Assets:			
Cash and pooled investments	$ 6,543	$ 10,881	$ 17,424
Investments	5,964	35,166	41,130
Other receivables (net of allowance)	583	818	1,401
Prepaid expenses	25	211	236
Total Current Assets	13,115	47,076	60,191
Noncurrent Assets:			
Investments, noncurrent	19,633	2,408	22,041
Other noncurrent assets	-	42,518	42,518
Capital assets:			
Land	34,677	-	34,677
Buildings	459,132	-	459,132
Furnishings and equipment	23,611	1,226	24,837
Accumulated depreciation	(113,999)	(1,030)	(115,029)
Construction in progress	90	-	90
Total Noncurrent Assets	423,144	45,122	468,266
Total Assets	$ 436,259	$ 92,198	$ 528,457
LIABILITIES			
Current Liabilities:			
Accounts payable	$ 283	$ 12,938	$ 13,221
Contracts and retainages payable	2,908	-	2,908
Accrued liabilities	3,761	65	3,826
Unearned revenues	82	2,405	2,487
Total Current Liabilities	7,034	15,408	22,442
Noncurrent Liabilities:			
Other long-term liabilities	34,934	-	34,934
Total Noncurrent Liabilities	34,934	-	34,934
Total Liabilities	41,968	15,408	57,376
NET ASSETS			
Invested in capital assets, net of related debt	364,984	196	365,180
Restricted for deferred sales tax	23,592	-	23,592
Restricted for other purposes	-	500	500
Unrestricted	5,715	76,094	81,809
Total Net Assets (Deficit)	$ 394,291	$ 76,790	$ 471,081

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Fund Net Assets
COMPONENT UNITS
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
OPERATING REVENUES			
Charges for services	$ 952	$ 15,103	$ 16,055
Total Operating Revenues	952	15,103	16,055
OPERATING EXPENSES			
Salaries and wages	379	4,515	4,894
Employee benefits	66	1,414	1,480
Personal services	160	1,425	1,585
Goods and services	2,526	2,344	4,870
Travel	4	26	30
Depreciation and amortization	16,200	124	16,324
Miscellaneous expenses	-	210	210
Total Operating Expenses	19,335	10,058	29,393
Operating Income (Loss)	(18,383)	5,045	(13,338)
NONOPERATING REVENUES (EXPENSES)			
Earnings (loss) on investments	3,404	3,115	6,519
Operating grants and contributions	-	240	240
Distributions of operating grants	-	(240)	(240)
Total Nonoperating Revenues (Expenses)	3,404	3,115	6,519
Income (Loss) Before Contributions and Transfers	(14,979)	8,160	(6,819)
Capital grants and contributions	829	-	829
Total Contributions and Transfers	829	-	829
Change in Net Assets	(14,150)	8,160	(5,990)
Net Assets - Beginning, as restated	408,441	68,630	477,071
Net Assets - Ending	$ 394,291	$ 76,790	$ 471,081

The notes to the financial statements are an integral part of this statement.

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Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2008

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Note 1
Summary of Significant Accounting Policies

The accompanying financial statements of the state of Washington have been prepared in conformity with generally accepted accounting principles (GAAP). The Office of Financial Management (OFM) is the primary authority for the state's accounting and reporting requirements. OFM has adopted the pronouncements of the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally. For government-wide and enterprise fund reporting, the state follows only those private-sector standards issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the GASB. Following is a summary of the significant accounting policies:

A. REPORTING ENTITY

In defining the state of Washington for financial reporting purposes, management considers: all funds, organizations, institutions, agencies, departments, and offices that are legally part of the state (the primary government); organizations for which the state is financially accountable; and other organizations for which the nature and significance of their relationship with the state are such that exclusion would cause the state's financial statements to be misleading or incomplete.

Financial accountability exists when the primary government appoints a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. An organization is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify that budget, to levy taxes or set rates or charges without substantive approval by another government, or to issue bonded debt without substantive approval by another government.

Based on these criteria, the following are included in the financial statements of the primary government:

State Agencies. Except as otherwise described herein, all state elected offices, departments, agencies, commissions, boards, committees, authorities, and councils (agencies) and all funds and subsidiary accounts of the state are included in the primary government. Executives of these agencies are either elected, directly appointed by the Governor, appointed by a board which is appointed by the Governor, or appointed by a board which is in part appointed by the Governor.

Additionally, a small number of board positions are established by statute or independently elected. The state Legislature creates these agencies, assigns their programs, approves operational funding, and requires financial accountability. The Legislature also authorizes all bond issuances for capital construction projects for the benefit of state agencies. The legal liability for these bonds and the ownership of agency assets resides with the state.

Colleges and Universities. The governing boards of the five state universities, the state college, and the 34 state community and technical colleges are appointed by the Governor. Each college's governing board appoints a president to function as chief administrator. The state Legislature approves budgets and budget amendments for the colleges' appropriated funds, which include the state's General Fund as well as certain capital projects funds. The state Treasurer issues general obligation debt for major campus construction projects. However, the colleges are authorized to issue revenue bonds for construction of facilities for certain revenue generating activities such as housing, dining, and parking. These revenue bonds are payable solely from, and secured by, fees and revenues derived from the operation of constructed facilities; the legal liability for the bonds and the ownership of the college assets reside with the state. Colleges do not have separate corporate powers and sue and are sued as part of the state with legal representation provided through the state Attorney General's Office. Since the colleges are legally part of the state, their financial operations, including their blended component units, are reported in the primary government financial statements using the fund structure prescribed by GASB.

Retirement Systems. The state of Washington, through the Department of Retirement Systems, administers eight retirement systems for public employees of the state and political subdivisions: the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Washington State Patrol Retirement System, the Public Safety Employees Retirement System, the Judicial Retirement System, and the Judges' Retirement Fund. The director of the Department of Retirement Systems is appointed by the Governor.

There are two additional retirement systems administered outside of the Department of Retirement Systems. The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund is administered through the Board for Volunteer Fire Fighters, which is appointed by the Governor. The Judicial Retirement Account is administered through the Administrative Office of the Courts under the direction of the Board for Judicial Administration.

The state Legislature establishes laws pertaining to the creation and administration of all public retirement systems. The participants of the public retirement systems, together with the state, provide funding for all costs of the systems based upon actuarial valuations. The state establishes benefit levels and approves the actuarial assumptions used in determining contribution levels.

All ten of the aforementioned retirement systems are included in the primary government's financial statements.

Blended Component Units. Blended component units, although legally separate entities, are part of the state's operations in substance. Accordingly, they are reported as part of the state and blended into the appropriate funds. The following entities are blended in the state's financial statements:

Tobacco Settlement Authority (TSA): The TSA was created by the Washington State Legislature in March 2002 as a public instrumentality separate and distinct from the state. It is governed by a five-member board appointed by the Governor. It was created to issue bonds to securitize a portion of the state's future tobacco settlement revenue in order to generate funds for increased costs of health care, long-term care, and other programs of the state.

Financial reports for the TSA may be obtained from the authority at the following address:

Tobacco Settlement Authority
1000 Second Avenue, Suite 2700
Seattle, WA 98104-1046

Other Blended Component Units: Tumwater Office Properties, The University of Washington Alumni Association, University of Washington Physicians, University of Washington Physicians Network, Community Development Properties C-D, Educational Research Properties, Radford Court Properties, Twenty-Fifth Avenue Properties, TSB Properties, and Washington Biomedical Research Properties I and II are blended component units in the state's financial statements. Financial information for these blended component units may be obtained from their respective administrative offices.

Discrete Component Units. Discretely presented component units are reported in a separate column in the government-wide financial statements. Discretely presented component units are legally separate from the state and primarily serve or benefit those outside of the state. They are financially accountable to the state, or have relationships with the state such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These entities are reported as discrete component units because state officials either serve on or appoint the members of the governing bodies of the authorities. The state also has the ability to influence the operations of the authorities through legislation. The following entities are discretely presented in the financial statements of the state in the component unit's column:

The Washington State Housing Finance Commission, the Washington Higher Education Facilities Authority, the Washington Health Care Facilities Authority, and the Washington Economic Development Finance Authority (financing authorities) were created by the state Legislature in a way that specifically prevents them from causing the state to be liable or responsible for their acts and obligations, including, but not limited to, any obligation to pay principal and interest on financing authority bonds. The financing authorities cannot obligate the state, either legally or morally, and the state has not assumed any obligation of, or with respect to, the financing authorities.

Financial reports of these financing authorities may be obtained from each authority at the following addresses:

Washington Health Care Facilities Authority
410 - 11th Avenue SE, Suite 201
PO Box 40935
Olympia, WA 98504-0935

Washington State Housing Finance Commission
Washington Higher Education Facilities Authority
Washington Economic Development Finance Authority
1000 Second Avenue, Suite 2700
Seattle, WA 98104-1046

The Washington State Public Stadium Authority (PSA) was created by the state Legislature to acquire, construct, own, and operate a football/soccer stadium, exhibition center, and parking garage. Construction was completed in 2002. PSA capital assets, net of accumulated depreciation, total $404 million. The state issued general obligation bonds for a portion of the cost of the stadium construction. The total public share of the stadium and exhibition center cost did not exceed $300 million from all state and local government funding sources, as defined in statute.

Project costs in excess of $300 million were the responsibility of the project's private partner, First & Goal, Inc. The bonds are being repaid through new state lottery games, a state sales tax credit, extension of the local hotel/motel tax, and parking and admissions taxes at the new facility. Financial reports of the PSA may be obtained at the following address:

Washington State Public Stadium Authority
Qwest Field & Event Center
800 Occidental Avenue South, #700
Seattle, WA 98134

The state's component units each have a year-end of June 30 with the exception of the Washington Economic Development Finance Authority which has a December 31 year-end.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide Financial Statements

The state presents two basic government-wide financial statements: the Statement of Net Assets and the Statement of Activities. These government-wide financial statements report information on all non-fiduciary activities of the primary government and its component units. The financial information for the primary government is distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

Statement of Net Assets. The Statement of Net Assets presents the state's non-fiduciary assets and liabilities. As a general rule, balances between governmental and business-type activities are eliminated.

Assets and liabilities are presented in a net assets format in order of liquidity. Net assets are classified into three categories:

- Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets.

- Restricted net assets result when constraints are placed on net asset use either by external parties or by law through constitutional provision or enabling legislation.

- Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories.

Statement of Activities. The Statement of Activities reports the extent to which each major state program is supported by general state revenues or is self-financed through fees and intergovernmental aid. For governmental activities, a major program is defined as a function. For business-type activities, a major program is an identifiable activity.

Program revenues offset the direct expenses of major programs. Direct expenses are those that are clearly identifiable within a specific function or activity. Program revenues are identified using the following criteria:

- Charges to customers for goods and services of the program. A customer is one who directly benefits from the goods or services or is otherwise directly affected by the program, such as a state citizen or taxpayer, or other governments or nongovernmental entities.

- Amounts received from outside entities that are restricted to one or more specific programs. These amounts can be operating or capital in nature.

- Earnings on investments that are restricted to a specific program are also considered program revenues.

General revenues consist of taxes and other items not meeting the definition of program revenues.

Generally the effect of internal activities is eliminated. Exceptions to this rule include charges between the workers' compensation insurance programs and various other state programs and functions. Elimination of these charges would distort the direct costs and revenues reported for the various activities involved.

Fund Financial Statements

The state uses 647 accounts that are combined into 54 rollup funds. The state presents separate financial statements for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements, with nonmajor funds being combined into a single column regardless of fund type. Internal service and fiduciary funds are reported by fund type. Major funds include:

Major Governmental Funds:

- **General Fund** is the state's primary operating fund. This fund accounts for all financial resources and transactions not accounted for in other funds.

- **Higher Education Special Revenue Fund** primarily accounts for grants and contracts received for research and other educational purposes. This fund also accounts for charges for services by state institutions of higher education.

- **Higher Education Endowment Permanent Fund** accounts for gifts and bequests that the donors have specified must remain intact. Each gift is governed by various restrictions on the investment and use of the funds.

Major Enterprise Funds:

- **Workers' Compensation Fund** accounts for the workers' compensation program that provides medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries.

- **Unemployment Compensation Fund** accounts for the unemployment compensation program. It accounts for the deposit of funds, requisitioned from the Federal Unemployment Trust Fund, to provide services to eligible participants within the state and to pay unemployment benefits.

- **Higher Education Student Services Fund** is used by colleges and universities principally for bookstore, cafeteria, parking, student housing, food service, and hospital business enterprise activities.

The state includes the following governmental and proprietary fund types within nonmajor funds:

Nonmajor Governmental Funds:

- **Special Revenue Funds** account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments, or for major capital projects) that are legally restricted to expenditures for specific purposes. These include a variety of state programs including public safety and health assistance programs; natural resource and wildlife protection and management programs; the state's transportation programs which include the operation of the state's ferry system and maintenance and preservation of non-interstate highway system; K-12 school construction; and construction and loan programs for local public works projects.

- **Debt Service Funds** account for the accumulation of resources for, and the payment of, principal and interest on the state's bonds issued in support of governmental activities.

- **Capital Projects Funds** account for the acquisition, construction, or improvement of major capital facilities including higher education facilities.

- **Common School Permanent Fund** accounts for the principal derived from the sale of timber. Interest earned is used for the benefit of common schools.

Nonmajor Proprietary Funds:

- **Enterprise Funds** account for the state's business type operations for which a fee is charged to external users for goods or services including: the state lottery; state liquor stores; the guaranteed college tuition program; and the convention and trade center.

- **Internal Service Funds** account for the provision of legal, motor pool, data processing, risk management, health insurance, and other services by one department or agency to other departments or agencies of the state on a cost-reimbursement basis.

The state reports the following fiduciary funds:

- **Pension (and other employee benefit) Trust Funds** are used to report resources that are required to be held in trust by the state for the members and beneficiaries of defined benefit and defined contribution pension plans, and other employee benefit plans.

- **Investment Trust Fund** accounts for the external portion of the Local Government Investment Pool (LGIP), which is reported by the state as the sponsoring government.

- **Private-Purpose Trust Fund** is used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments such as the administration of unclaimed property.

- **Agency Funds** account for resources held by the state in a custodial capacity for other governments, private organizations or individuals.

Operating and Nonoperating Revenues and Expenses. The state's proprietary funds make a distinction between operating and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing goods and services directly related to the principal operations of the funds. For example, operating revenues for the state's workers' compensation and health insurance funds consist of premiums and assessments collected. Operating expenses consist of claims paid to covered individuals, claims adjustment expenses, costs of commercial insurance coverage and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating, including interest expense and investment gains and losses.

Application of Restricted/Unrestricted Resources. When both restricted and unrestricted resources are available for use, it is the state's policy to use restricted resources first and then use unrestricted resources as they are needed.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

For government-wide reporting purposes, the state uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

For fund statement reporting purposes, the state uses the current financial resources measurement focus and modified accrual basis of accounting for governmental funds. With the current financial resources measurement focus, generally only current assets and current liabilities are included on the governmental funds balance sheet. Operating statements for these funds present inflows (i.e., revenues and other financing sources) and outflows (i.e., expenditures and other financing uses) of expendable financial resources.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be reasonably estimated. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary revenues that are determined to be susceptible to accrual include sales taxes, business and occupation taxes, motor fuel taxes, federal grants-in-aid, and charges for services.

Revenues from property taxes are determined to be available if collectible within 60 days. Taxes imposed on exchange transactions are accrued when the underlying exchange transaction occurs if collectible within one year. Revenue for timber cutting contracts is accrued when the timber is harvested. Revenues from licenses, permits, and fees are recognized when received in cash. Revenues related to expenditure-driven grant agreements are recognized when the qualifying expenditures are made, provided that the availability criteria is met. Expenditure-driven grant revenue is considered available if it can be collected by the state at the same time cash is disbursed to cover the associated grant expenditure. Pledges are accrued when the eligibility requirements are met and resources are available. All other accrued revenue sources are determined to be available if collectible within 12 months.

Property taxes are levied in December for the following calendar year. The first half-year collections are due by April 30, and the second half-year collections are due by October 31. Since the state is on a fiscal year ending June 30, the first half-year collections are recognized as revenue, if collectible within 60 days of the fiscal year end. The second half-year collections are recognized as receivables offset by deferred revenue. The lien date on property taxes is January 1 of the tax levy year.

Under modified accrual accounting, expenditures are generally recognized when the related liability is incurred. However, unmatured interest on general long-term debt is recognized when due, and certain compensated absences, other postemployment benefits, and claims and judgments are recognized when the obligations are expected to be liquidated with available expendable financial resources.

The state reports deferred revenues on its governmental fund balance sheet under certain conditions. Deferred revenues arise when a potential revenue does not meet both the "measurable" and the "available" criteria for revenue recognition in the current period. Deferred revenues also arise when resources are received by the state before it has a legal claim to them, such as when grant monies are received prior to incurring qualifying expenditures/expenses.

All proprietary and trust funds are accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of these funds are included on their respective statements of net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. Net assets in proprietary funds are segregated into three components: invested in capital assets, net of related debt; restricted; and unrestricted.

Net assets for trust funds are held in trust for external individuals and organizations.

All proprietary and trust funds are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Cash and Investments

Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Assets, Balance Sheets and Statements of Cash Flows as "Cash and Pooled Investments." The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. As a result, the cash balances of funds with surplus pooled balances are not reduced for these investments. For reporting purposes, investments are stated at fair value or amortized cost, which approximates

fair value. For purposes of reporting cash flows, the state considers cash and pooled investments to be cash equivalents. Pooled investments include short-term, highly-liquid investments that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates.

The method of accounting for noncurrent investments varies depending upon the fund classification. Investments in the state's Local Government Investment Pool (LGIP), an external investment pool operated in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940, are reported at amortized cost. The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, phone number (360) 902-9000 or TTY (360) 902-8963.

Long-term investments are reported at fair value. Fair values are based on published market prices, quotations from national security exchanges and security pricing services, or by the respective fund managers for securities that are not actively traded. Privately held mortgages are valued at cost, which approximates fair value. Certain pension trust fund investments, including real estate and private equity, are valued based on appraisals or independent advisors. Additional disclosure describing investments is provided in Note 3.

2. Receivables and Payables

Receivables in the state's governmental fund type accounts consist primarily of taxes and federal revenues. Receivables in all other funds have arisen in the ordinary course of business. Receivables are recorded when either the asset or revenue recognition criteria (refer to Note 1.C) have been met. All receivables are reported net of an allowance for accounts estimated to be uncollectible.

For government-wide reporting purposes, amounts recorded as interfund/interagency receivables and payables are eliminated in the governmental and business-type activities columns on the Statement of Net Assets, except for the net residual balances due between the governmental and business-type activities, which are reported as internal balances. Amounts recorded in governmental and business-type activities as due to or from fiduciary funds have been reported as due to or from other governments.

Noncurrent receivables are recorded in the Workers' Compensation Fund representing estimated recoveries from third parties for a certain portion of claims expenses that are recorded as noncurrent claims payable. The accrued recoveries are computed using a variety of actuarial and statistical techniques and are discounted at assumed interest rates to arrive at the recorded value. Disclosures related to the Workers' Compensation Fund activities and claims payable are provided in Notes 1.E.1 and 7.C.

3. Inventories

Consumable inventories, consisting of expendable materials and supplies held for consumption, are valued and reported in the state's financial statements if the fiscal year-end balance on hand within an agency is estimated to be $25,000 or more. Consumable inventories are generally valued at cost using the first-in, first-out method. Donated consumable inventories are recorded at fair market value.

All merchandise inventories are considered reportable for financial statement purposes. Merchandise inventories are generally valued at cost using the first-in, first-out method. Inventories of governmental funds are valued at cost and recorded using the consumption method. Proprietary funds expense inventories when used or sold.

For governmental fund financial reporting, inventory balances are also recorded as a reservation of fund balance indicating that they do not constitute "available spendable resources" except for $6.6 million in federally donated consumable inventories, which are offset by deferred revenues because they do not constitute an "available" resource until consumed.

4. Capital Assets

Except as noted below, it is the state's policy to capitalize:

- All land;
- All additions and improvements to the state highway system;
- Infrastructure, other than the state highway system, with a cost of $100,000 or more;
- Buildings, building improvements, and leasehold improvements with a cost of $100,000 or more;
- All other capital assets with a unit cost of $5,000 or more.

Capital assets acquired by capital leases with a net present value or fair market value, whichever is less, of less than $10,000 are not capitalized.

Purchased capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Capital asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to

the value or extend the life of the state's capital assets are not capitalized.

Donated capital assets are valued at their estimated fair market value on the date of donation, plus all appropriate ancillary costs. When the fair market value is not practically determinable due to lack of sufficient records, estimated cost is used. Where necessary, estimates of original cost and fair market value are derived by factoring price levels from the current period to the time of acquisition.

The value of assets constructed by agencies for their own use includes all direct construction costs and indirect costs that are related to the construction. In enterprise and trust funds, net interest costs (if material) incurred during the period of construction are capitalized.

Art collections, library reserve collections, and museum and historical collections, that are considered inexhaustible in that their value does not diminish over time, are not capitalized by the state if all of the following conditions are met:

- The collection is held for public exhibition, education or research in furtherance of public service, rather than financial gain.
- The collection is protected, kept unencumbered, cared for, and preserved.
- The collection is subject to policy requirements that the proceeds from sales of collection items be used to acquire other items for the collection.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Generally, estimated useful lives are as follows:

Buildings & building components	5-50 years
Furnishings, equipment & collections	3-50 years
Other improvements	3-50 years
Infrastructure	20-50 years

The cost and related accumulated depreciation of disposed capital assets are removed from the accounting records.

The state capitalizes the state highway system as a network but does not depreciate it since the system is being preserved approximately at or above a condition level established by the state. That condition level is documented and disclosed. Additionally, the highway system is managed using an asset management system that includes:

- Maintenance of an up-to-date inventory of system assets,
- Performance of condition assessments of the assets at least every three years with summarization of the results using a measurement scale, and
- Annual estimation of the amount to maintain and preserve the assets at the condition level established and disclosed.

All state highway system expenditures that preserve the useful life of the system are expensed in the period incurred. Additions and improvements that increase the capacity or efficiency of the system are capitalized. This approach of reporting condition instead of depreciating the highway system is called the modified approach.

For government-wide financial reporting purposes, capital assets of the state are reported as assets in the applicable governmental or business-type activities column on the Statement of Net Assets. Depreciation expense related to capital assets is reported in the Statement of Activities. Capital assets and the related depreciation expense are also reported in the proprietary fund financial statements.

In governmental funds, capital assets are not capitalized in the accounts that acquire or construct them. Instead, capital acquisitions and construction are reflected as expenditures in the year acquired. No depreciation is reported.

5. Compensated Absences

State employees accrue vested vacation leave at a variable rate based on years of service. In general, accrued vacation leave cannot exceed 240 hours at the employee's anniversary date.

Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested; i.e., the state does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the state is liable for 25 percent of the employee's accumulated sick leave. In addition, the state has a sick leave buyout option in which, each January, employees who accumulate sick leave in excess of 480 hours may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave.

It is the state's policy to liquidate unpaid compensated absences outstanding at June 30 with future resources rather than advance funding it with currently available expendable financial resources.

For government-wide reporting purposes, the state reports compensated absences obligations as liabilities in the applicable governmental or business-type activities columns on the Statement of Net Assets.

For fund statement reporting purposes, governmental funds recognize an expenditure for annual and sick leave when it is payable, i.e., upon employee's use, resignation, or retirement. Proprietary and trust funds recognize the expense and accrue a liability for annual leave and estimated sick leave buyout, including related payroll taxes and benefits as applicable, as the leave is earned.

6. Long-Term Liabilities

In the government-wide and proprietary fund financial statements, long-term obligations of the state are reported as liabilities on the Statement of Net Assets. Bonds payable are reported net of applicable original issuance premium or discount. When material, bond premiums, discounts, and issue costs are deferred and amortized over the life of the bonds.

For governmental fund financial reporting, the face (par) amount of debt issued is reported as other financing sources. Original issuance premiums and discounts on debt issuance are also reported as other financing sources and uses, respectively. Issue costs are reported as debt service expenditures.

7. Fund Equity

In the fund financial statements, governmental funds report the difference between fund assets and fund liabilities as "fund balance." Reserved fund balance represents that portion of fund balance that is (1) not available for appropriation or expenditure, and/or (2) legally segregated for a specific future use. Unreserved, designated fund balance indicates tentative plans for future use of financial resources. Unreserved, undesignated fund balance represents the amount available for appropriation.

In proprietary funds, fund equity is called net assets. Net assets are comprised of three components: invested in capital assets, net of related debt; restricted; and unrestricted.

E. OTHER INFORMATION

1. Insurance Activities

Workers' Compensation. Title 51 RCW establishes the state of Washington's workers' compensation program. The statute requires all applicable employers to insure payment of benefits for job-related injuries and diseases through the Workers' Compensation Fund or through self-insurance. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations through private insurers.

The Workers' Compensation Fund, an enterprise fund, is used to account for the workers' compensation program which provides time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries. The main benefit plans of the workers' compensation program are funded based on rates that will keep these plans solvent in accordance with recognized actuarial principles. The supplemental pension cost-of-living adjustments (COLA) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

Premiums are based on individual employers' reported payroll hours and insurance rates based on each employer's risk classification(s) and past experience. In addition to its regular premium plans, the Workers' Compensation Fund offers a retrospective premium rating plan under which premiums are adjusted annually for up to three years following the plan year based on individual employers' loss experience. Initial adjustments to the standard premiums are paid to or collected from the employers approximately ten months after the end of each plan year.

The Workers' Compensation Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the benefit involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liabilities, claims adjudication, and judgments, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic, legal, and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Risk Management. Washington State operates a risk management liability program pursuant to RCW 4.92.130. The state manages its tort claims as an insurance business activity rather than a general governmental activity. The state's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state's management believes it is more economical to manage its risks internally and set aside assets for claims settlement in the Risk Management Fund, an internal service fund. A limited amount of commercial insurance is purchased for employee bonds and to limit the exposure to catastrophic losses. Settled claims resulting from these risks have not exceeded commercial insurance

coverage in any of the past six fiscal years. Otherwise, the risk management liability program services all claims against the state for injuries and property damage to third parties. The majority of state funds and agencies participate in the risk management liability program in proportion to the anticipated exposure to liability losses.

Health Insurance. The state of Washington administers and provides medical, dental, basic life, and long-term disability insurance coverage for eligible state employees. In addition, the state offers coverage to K-12 school districts, educational service districts, political subdivisions and employee organizations representing state civil service workers. The state establishes eligibility requirements and approves plan benefits of all participating health care organizations. Because the state and its employees are the predominant participants in the employee health insurance program, it is accounted for in the Employee Insurance Fund, an internal service fund.

The state's share of the cost of coverage for state employees is based on a per capita amount determined annually by the Legislature and allocated to state agencies. The Health Care Authority, as administrator of the health care benefits program, collects this monthly "premium" from agencies for each active employee enrolled in the program. State employees self-pay for coverage beyond the state's contribution. Cost of coverage for non-state employees is paid by their respective employers. Most coverage is available on a self-paid basis to former employees and employees who are temporarily not in pay status.

Most coverage is also available on a self-paid basis to eligible retirees. In accordance with the provisions of GASB Statement No. 43, an agency fund, the Retiree Health Insurance Fund, is used to account for the retiree health insurance program. For additional information, refer to Note 12.

The state secures commercial insurance for certain coverage offered, but self-insures the risk of loss for the Uniform Medical Plan. The Uniform Medical Plan enrolled 62 percent of the eligible subscribers in Fiscal Year 2008. Claims are paid from premiums collected, and claims adjudication is contracted through a third-party administrator.

Considerations in calculating liabilities include frequency of claims, administrative costs, industry inflation trends, advances in medical technology, and other social and economic factors. Liabilities include an amount for claims incurred but not reported.

2. Postemployment Benefits

COBRA. In compliance with federal law, the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), the state offers health and dental benefits on a temporary basis to qualified beneficiaries whose benefit coverage would otherwise end because of a qualifying event such as loss of employment. COBRA coverage is the same medical and dental coverage available to state employees, available on a self-paid basis.

Medical Expense Plan. As disclosed in Note 1.D, at the time of separation from state service due to retirement or death, the state offers a 25 percent buy-out of an employee's accumulated sick leave. Individual state agencies may offer eligible employees a medical expense plan that provides for reimbursement of medical expenses. Instead of cashing out sick leave at retirement, agencies may deposit equivalent funds in a medical expense plan that meets the requirements of the Internal Revenue Code.

Retirement Benefits. Refer to Note 11 Retirement Plans and Note 12 Other Postemployment Benefits.

3. Interfund/Interagency Activities

The state engages in two major categories of interfund/interagency activity: reciprocal and nonreciprocal.

Reciprocal interfund/interagency activity is the internal counterpart to exchange and exchange-like transactions and includes both interfund loans and services provided and used. Nonreciprocal activity is nonexchange in nature and includes both transfers and reimbursements.

4. Donor-restricted Endowments

The state reports endowments in higher education endowment permanent accounts. These accounts are established outside of the state treasury for use by the higher education institutions. State law permits the governing boards of the institutions to appropriate for expenditure as much of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment fund as is deemed prudent under the facts and circumstances prevailing at the time.

Generally, the institutions use a 5 percent spending rate policy for authorizing and spending investment income. The net appreciation available for authorization for expenditure by governing boards totaled $204.8 million and is reported in the nonexpendable portion of the reserve for permanent funds.

Note 2
Accounting and Reporting Changes

Reporting Changes. Effective for Fiscal Year 2008 reporting, the state implemented the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* GASB Statement No. 45 requires the state to disclose information about the state's other postemployment benefits (OPEB) including plan description, accounting policies, contributions and reserves, and funded status and funding progress (refer to Note 12 and the Required Supplementary Information). Additionally, the state is required to report the annual cost of the OPEB and the outstanding obligations related to OPEB consistent with pension reporting.

Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* Statement No. 48 requires the state to present disclosures of the revenues pledged to collateralize debt (refer to Note 7.A).

Statement No. 50, *Pension Disclosures - an amendment of GASB Statements 25 and 27.* Statement No. 50 replicates the reporting requirements for other postemployment benefits by requiring disclosure for pension plans of funded status information (refer to Note 11.E).

Fund Reclassifications. During Fiscal Year 2008, it was determined that a certain Nonmajor Governmental Fund was incorrectly being reported as a nonmajor Special Revenue Fund. To correct this situation, beginning fund balances were restated to effect its proper fund classification as a Higher Education Endowment Permanent Fund.

It was also discovered that the activity of a certain Nonmajor Fiduciary Fund was incorrectly being reported as a Private Purpose Trust Fund. To correct this situation, beginning fund balances were restated to effect its proper fund classification as a nonmajor Special Revenue Fund.

Prior Period Adjustments. The state recorded prior period adjustments in two Nonmajor Enterprise Funds to correct capital asset and compensated absence balances for errors that occurred in prior years. One of the adjustments had an offsetting effect on capital assets and long-term obligations of governmental activities. The state also corrected beginning balances in the Pooled Investment Agency Fund by transferring non-pooled investment related balances to the Other Agency Fund.

Fund equity at July 1, 2007, has been restated as follows (expressed in thousands):

	Fund equity at June 30, 2007, as previously reported	Fund Reclassification	Prior Period Adjustment	Fund equity as restated, July 1, 2007
Governmental Funds:				
General	$ 1,903,160	$ -	$ -	$ 1,903,160
Higher Education Special Revenue	1,510,889	-	-	1,510,889
Higher Education Endowment	2,886,505	31,151	-	2,917,656
Nonmajor Governmental	5,852,765	(29,902)	-	5,822,863
Proprietary Funds:				
Enterprise Funds:				
Workers' Compensation	(8,185,555)	-	-	(8,185,555)
Unemployment Compensation	3,891,025	-	-	3,891,025
Higher Education Student Services	1,004,854	-	-	1,004,854
Nonmajor Enterprise	523,200	-	(234)	522,966
Internal Service Funds	171,961	-	-	171,961
Fiduciary Funds:				
Private Purpose Trust	54,580	(1,249)	-	53,331
Local Government Investment Pool	5,809,236	-	-	5,809,236
Pension and Other Employee Benefit Plans	69,210,007	-	-	69,210,007
Component Units:				
Public Stadium	408,441	-	-	408,441
Nonmajor Component Units	68,630	-	-	68,630

Note 3
Deposits and Investments

A. DEPOSITS

Custodial Credit Risk. Custodial credit risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, it is the risk that the state would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties.

The state minimizes custodial credit risk by restrictions set forth in state law. Statutes restrict the State Treasurer to deposit funds in financial institutions that are physically located in Washington unless otherwise expressly permitted by statute and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC (established under Chapter 39.58 of the Revised Code of Washington) constitutes a multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the PDPC's agent in the name of the collateral pool.

At June 30, 2008, $2.5 billion of the state's deposits with financial institutions were either insured or collateralized, with the remaining $32.4 million uninsured/ uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the state's insured deposits and the PDPC provides collateral protection.

B. INVESTMENTS – PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS (PENSION TRUST FUNDS)

1. Summary of Investment Policies

The Washington State Investment Board (WSIB) has been authorized by statute as having the investment management responsibility for the pension trust funds. The WSIB manages pension fund assets to maximize return at a prudent level of risk (RCW 43.33A.110). The WSIB establishes asset allocation targets that must be considered at all times when making investment decisions.

Eligible Investments. Pension trust funds are invested in the Commingled Trust Fund (CTF). The CTF is comprised of public market equities, fixed income securities, private equity investments, real estate and tangible assets. The CTF's performance benchmark objective is to exceed the return of a policy benchmark consisting of public market indices weighted according to asset allocation targets. The asset allocation for the CTF is formally reviewed at least every four years.

The public markets equity portion of the retirement fund includes strategies in the U.S., developed international and emerging markets. Since the U.S. equity markets are generally efficient, the domestic equity portfolio is 75 percent passively managed with the rest in an active enhanced strategy. Over time, the domestic equity portfolio should track the return of a broad U.S. market benchmark, the Dow Jones Wilshire 5000 Index. Non-U.S. markets and emerging markets are generally less efficient than the U.S. market; therefore, more active management will be included in the approach taken with these markets. The weightings of the elements of the developed markets and emerging markets of the non-U.S. equity program are similar to the weightings of the MSCI All Country World ex. U.S. Index which serves as the benchmark for the WSIB's entire non-U.S. program.

The portfolio is constrained by policy from investing more than 1 percent of the portfolio's par holdings in any single issuer with a quality rating below investment grade, and from having a duration (the sensitivity of the portfolio's fair value to changes in the level of interest rates) that is more than 20 percent different than the duration of the Lehman Universal Index. In addition, the major sector allocations are limited to the following ranges: U.S Treasuries and government agencies – 10 percent to 45 percent, credit bonds – 10 percent to 60 percent, asset backed securities – 0 percent to 10 percent, commercial mortgage-backed securities – 0 percent to 10 percent, mortgage-backed securities – 5 percent to 45 percent and below investment grade credit bonds – 0 percent to 15 percent.

Pension trust funds can be invested in any appropriate private equity investment opportunity that has the potential for returns superior to traditional investment opportunities and which is not prohibited by the WSIB's policies or by law. These investment types include venture capital investments, corporate finance (including leveraged, management and employee buyouts), distressed, international and mezzanine investments. Private equity investments are made through limited partnership vehicles. The private equity portfolio has diversified investments in companies in a variety of stages of growth. The portfolio also includes a broad cross-section of opportunities in different industries, and geographic regions. In 2007 the WSIB approved the following changes to the asset allocation of the Retirement Funds: A new asset class, tangible assets, was added, the U.S. and international equity portfolio were combined and the targets changed to market weighting, and the private equity and real estate allocations were increased. The tangible asset portfolio invests in sectors such as infrastructure, timber, agriculture, natural resource rights, commodities, or other sectors consistent with the goals of the asset class.

The WSIB's real estate program is an externally managed pool of selected partnership investments, intended to

provide alternative portfolio characteristics when compared to traditional stock and bond investments.

The majority of the WSIB's partnerships invest in institutional-quality real estate assets that are leased to third parties. The combination of income generated from bond-like lease payments, coupled with the hard asset qualities of commercial real estate, combine to generate returns that are expected to fall between the return expectations for fixed income and equities. The real estate portfolio is managed to deliver risk-adjusted returns that are consistent with the Board's long-term return expectations for the asset class.

The WSIB's real estate partnerships typically invest in private real estate assets that are held for long-term income and appreciation. Many of the WSIB's investment partnerships do not involve co-investment with other financial entities, thereby providing the WSIB with control provisions related to liquidation, acquisition, and ongoing operational decisions like annual capital expenditures.

2. Unfunded Commitments

The WSIB has entered into a number of agreements that commit the Retirement Funds, upon request, to make additional investment purchases up to predetermined amounts. As of June 30, 2008, the Retirement Funds had unfunded commitments of $8.4 billion, $7.7 billion and $137.1 million in private equity, real estate and tangible assets, respectively.

3. Securities Lending

State law and Board policy permit the WSIB to participate in securities lending programs to augment investment income. The Board has entered into an agreement with JP Morgan to act as agent for the WSIB in securities lending transactions. As JP Morgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

In accordance with GASB Statement No. 28, the WSIB reports securities lent (the underlying securities) as assets in the statement of net assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets.

Securities received as collateral are reported as assets if the WSIB has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the statement of net assets. Securities lending transactions collateralized by securities that the WSIB does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Securities were loaned (consisting of fixed income and equities) and collateralized by the WSIB's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities had collateral denominated in the same currency the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities. The collateral held and fair value of securities on loan at June 30, 2008 were $4.0 billion and $3.9 billion respectively. At year-end, the amounts the WSIB owed the borrowers exceeded the amounts the borrowers owed WSIB, resulting in no credit risk exposure to borrowers.

During Fiscal Year 2008, securities lending transactions could be terminated on demand by either the WSIB or the borrower. The weighted average maturity of overall loans was 21 days.

Cash collateral was invested by the WSIB's agents in securities issued or guaranteed by the U.S. government, the WSIB's short-term investment pool (average final maturity of 136 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. JP Morgan indemnified the WSIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. JP Morgan's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2008, there were no significant violations of legal or contractual provisions, or failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the WSIB incurred no losses during Fiscal Year 2008 resulting from a default by either the borrowers or the securities lending agents.

4. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The pension fixed income investments are actively managed to exceed the return of the Lehman Universal Index, with volatility as measured by duration to be similar to or less than the index. Pension trust funds are invested in U.S. agencies and corporate debt variable-rate securities, most of which reset periodically to the market interest rate. Because these securities frequently reprice to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date.

The following schedule presents the pension fund investments by type and provides information about the interest rate risks associated with the pension trust funds investments as of June 30, 2008. The schedule displays various asset classes held by maturity in years and credit ratings. Variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

Pension Trust Funds
June 30, 2008
(expressed in thousands)

		Maturity				
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**More than 10 years**	**Credit Rating**
Asset Backed Securities	$ 8,290	$ -	$ 611	$ -	$ 7,679	Multiple
Mortgages:						
Collateralized mortgage obligations	1,787,756	4,083	586,200	1,082,038	115,435	Aaa
Pass throughs	2,710,005	261	1,706,519	906,172	97,053	Multiple
Commercial mortgage backed securities	566,007	20,829	268,853	275,136	1,189	Multiple
Corporate bonds - domestic	6,765,029	346,569	2,112,167	3,065,125	1,241,168	Multiple
Corporate bonds - foreign	385,893	-	165,153	111,431	109,309	Multiple
Government securities - domestic:						
US government treasuries	78,143	-	26,264	51,879	-	Aaa
Treasury inflation protected securities	1,489,766	-	1,019,000	470,766	-	Aaa
Variable rate notes	520,164	15,119	72,539	24,806	407,700	Multiple
	14,311,053	$ 386,861	$ 5,957,306	$ 5,987,353	$ 1,979,533	
Corporate stock - foreign	8,478,993					
Commingled index funds - domestic	9,445,627					
Commingled index funds - foreign	5,216,260					
Money market funds	1,056,971					
Cash overlay	287,383					
Private equity	13,837,207					
Real estate	8,688,560					
Innovation	555,605					
Tangible assets	447,753					
Currencies	132,867					
Securities lending collateral balances	3,963,758					
Defined contribution plans assets:						
Short-Horizon	74,248					
Mid-Horizon	193,474					
Long-Horizon	194,005					
Mutual funds:						
Domestic equity passive	1,257,938					
Non-US passive developed	914,575					
Domestic equity active	321,081					
Non-US active developed	141,587					
Washington State bond fund	403,561					
Savings pool	825,670					
Money market mutual funds	400,342					
Total	$ 71,148,518					

Investments with multiple credit ratings are presented using the Moody's rating scale as follows:

Pension Trust Funds
Investments with Multiple Credit Ratings
June 30, 2008
(expressed in thousands)

	Investment Type						
Moody's Equivalent Credit Rating	**Asset-backed Securities**	**Corporate Bonds - Domestic**	**Corporate Bonds - Foreign**	**Variable Rate Notes**	**Pass Throughs**	**Commercial Mortgage Backed Securities**	**Total**
Aaa	$ 5,245	$ 770,039	$ 145,463	$ 251,716	$ 2,675,301	$ 544,499	$ 4,392,263
Aa1	-	168,073	25,080	-	-	21,508	214,661
Aa2	-	504,221	-	2,641	-	-	506,862
Aa3	-	741,566	-	11,903	-	-	753,469
A1	-	558,004	41,285	8,273	-	-	607,562
A2	-	647,139	-	30,061	-	-	677,200
A3	-	580,517	28,166	7,887	-	-	616,570
Baa1	-	591,619	-	5,958	-	-	597,577
Baa2	-	1,103,673	24,308	18,013	-	-	1,145,994
Baa3 & Lower	3,045	1,097,893	121,540	183,712	34,704	-	1,440,894
NR	-	2,285	51	-	-	-	2,336
Total	$ 8,290	$ 6,765,029	$ 385,893	$ 520,164	$ 2,710,005	$ 566,007	$10,955,388

5. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Rated debt investments of the pension trust funds as of June 30, 2008, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The WSIB policy states no corporate fixed income issue shall exceed 3 percent of cost at the time of purchase or 6 percent of fair value thereafter of the fund, and no high yield issues shall exceed 1 percent of cost or 2 percent of fair value of the fund. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2008.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the WSIB would not be able to recover the value of investments that are in the possession of an outside party. The WSIB does not have a policy specifically for custodial credit risk. The securities lending collateral balances are from securities required to be listed under GASB Statement No. 3 Category 3 – Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the WSIB's name. (This includes the amount of any repurchase agreement that exceeds the fair value of the underlying securities.)

6. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The WSIB does not have a formal policy to limit foreign currency risk. The WSIB manages their exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios by sector and by issuer to limit foreign currency and security risk.

The following schedule presents the exposure of pension fund investments to foreign currency risk. The schedule provides information on deposits and investments held in various foreign currencies, which are stated in U.S. dollars. The pension trust funds also had $5.2 billion invested in an international commingled equity index fund. As such, these currency denominations are not presented in the following schedule.

Pension Trust Funds
Foreign Currency Risk
June 30, 2008
(expressed in thousands)

	Investment Type					
Foreign Currency Denomination	**Liquidity**	**Fixed Income**	**Equity**	**Private Equity**	**Real Estate**	**Total**
Australia-Dollar	$ 13,913	$ 109,213	$ 433,233	$ -	$ 39,303	$ 595,662
Brazil-Real	1,469	192,354	100,226	-	-	294,049
Britain-Pound	6,217	-	1,555,625	27,369	58,046	1,647,257
Canada-Dollar	19,686	-	582,542	-	2,009	604,237
China-Renminbi	-	-	-	-	79,976	79,976
Denmark-Krone	694	-	88,039	-	-	88,733
E.M.U.-Euro	43,296	51	2,702,575	1,397,083	748,369	4,891,374
Egypt-Pound	-	-	16,161	-	-	16,161
Hong Kong-Dollar	11,591	-	189,925	-	39,840	241,356
Hungary-Forint	-	-	29,773	-	7,961	37,734
Indonesia-Rupiah	-	-	7,722	-	7,718	15,440
Israel-Shekel	89	-	6,498	-	-	6,587
Japan-Yen	9,361	-	1,499,236	-	518,385	2,026,982
Lithuania-Litas	161	-	-	-	-	161
Malaysia-Ringgit	26	-	8,615	-	-	8,641
Mexico-Peso	31	31,744	10,756	-	3,320	45,851
New Zealand-Dollar	183	-	18,464	-	-	18,647
Norway-Krone	4,005	-	110,929	-	-	114,934
Pakistan-Rupee	58	-	8,584	-	-	8,642
Philippines-Peso	31	-	-	-	-	31
Poland-Zloty	134	-	36,870	-	1,880	38,884
Singapore-Dollar	464	-	133,423	299	(41)	134,145
South Africa-Rand	25	-	36,673	-	-	36,698
South Korea-Won	220	-	39,898	-	219,084	259,202
Sweden-Krona	8,583	-	97,934	46,168	-	152,685
Switzerland-Franc	3,100	-	523,676	-	-	526,776
Taiwan-Dollar	-	-	-	-	(139)	(139)
Thailand-Baht	16	-	4,932	-	(137)	4,811
Turkey-Lira	12	52,531	36,981	-	-	89,524
Total	$ 123,365	$ 385,893	$ 8,279,290	$ 1,470,919	$ 1,725,574	$ 11,985,041

7. Derivatives

The WSIB is authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate swaps, credit default swaps, equity swaps, and options to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. The WSIB mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Consistent with the WSIB authority to invest in derivatives, international and domestic active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to equitize excess cash holdings. At June 30, 2008, the WSIB held swap contracts, consisting of credit default swaps and interest rate swaps. The unrealized loss for the swap contracts amounted to $0.5 million and $1.4 million respectively, at June 30, 2008. The credit default swap contracts are used to mitigate credit risk and the interest rate swap contract is used to mitigate interest rate risk. At June 30, 2008, the WSIB held derivative securities consisting of collateralized mortgage obligations (CMOs) of $1.8 billion.

8. Reverse Repurchase Agreements

State law permits the WSIB to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, the WSIB would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during the year and there were no liabilities outstanding as of June 30, 2008.

C. INVESTMENTS – WORKERS' COMPENSATION FUND

1. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship over the investment of the workers' compensation fund investments is vested in the WSIB. The Legislature established a standard of care for investment of these funds in RCW 43.33A.140. Additionally, the WSIB must comply with other state laws, such as the Ethics in Public Service Act, RCW 42.52, as it makes investment decisions and seeks to meet its investment objectives.

In accordance with state laws, workers' compensation fund investments are to be managed to limit fluctuations in the industrial insurance premiums, and subject to this purpose, achieve a maximum return at a prudent level of risk. Based on this requirement, the order of the objectives is:

- Maintain the solvency of the funds.
- Maintain premium rate stability.
- Ensure sufficient assets are available to fund the expected liability payments.
- Subject to those above, achieve a maximum return at a prudent level of risk.

Eligible Investments. Eligible investments are securities and deposits that are in accordance with the WSIB's investment policy and RCW 43.33A.110. Eligible investments include:

- U.S. Equities.
- International Equities.
- U.S. Treasuries and Government Agencies.
- Credit Bonds.
- Mortgage-Backed Securities rated BBB- or higher by Standard & Poor's and Baa3 or higher by Moody's Investor's Service (Moody's).
- Asset-Backed Securities rated BBB- or higher by Standard & Poor's and Baa3 or higher by Moody's.
- Commercial Mortgage-Backed Securities rated BBB- or higher by Standard & Poor's and Baa3 or higher by Moody's.
- Investment Grade Non-U.S. Dollar Bonds.

Investment Restrictions. To meet stated objectives, investments of workers' compensation funds are subject to the following constraints:

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk in accordance with RCW 43.33A.110.

- Asset allocation will be reviewed every three to four years or sooner if there are significant changes in funding levels or the liability durations. Assets will be rebalanced across asset classes when the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.

- No corporate fixed income issue cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time.

- The benchmark and structure for U.S. equities will be the broad U.S. stock market as defined by the Dow Jones-Wilshire 5000. The benchmark and structure for international equities will be the Morgan Stanley Capital All Country World Ex US Investable Market Index (MSCI ACW Ex US IMI). Both portfolios will be 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long position.

- The fixed income portfolios' structure varies depending upon the required duration target. The duration targets are reviewed every three years, or sooner, if there are significant changes in the funding levels or the liability durations.

- Sector allocation of fixed income investments must be managed within the following prescribed ranges: U.S. Treasuries and government agencies – 5 percent to 25 percent, credit bonds – 20 percent to 70 percent, asset backed securities – 0 percent to 10 percent, commercial mortgage backed securities – 0 percent to 10 percent and mortgage backed securities – 0 percent to 25 percent. These targets are long-term in nature. Deviations may occur in the short-term as a result of interim market conditions. However, if a range is exceeded the portfolios must be rebalanced as soon as it is practical to the target allocations.

- Total holdings of below investment grade credit bonds (as defined by Lehman Brothers Global Family of Fixed Income Indices)) should not exceed 5 percent of total fixed income holdings.

2. Securities Lending

State law and Board policy permit the WSIB to participate in securities lending programs to augment investment income. The Board has entered into an agreement with JP Morgan to act as agent for the WSIB in securities lending transactions. As JP Morgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

In accordance with GASB Statement No. 28, the WSIB reports securities lent (the underlying securities) as assets in the statement of net assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets if the WSIB has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the statement of net assets. Securities lending transactions collateralized by securities that the WSIB does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

Fixed income securities were loaned and collateralized by the WSIB's agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities had collateral denominated in the same currency, the collateral requirement was 102 percent of the fair value, including accrued interest, of the securities loaned. was All other securities were required to be collateralized at 105 percent of the fair value, including accrued interest, of the loaned securities. The collateral held and fair value of securities on loan at June 30, 2008 was $2.2 billion and $2.1 billion respectively. At year-end, the amounts the WSIB owed the borrowers exceeded the amounts the borrowers owed the WSIB, resulting in no credit risk exposure to borrowers.

During Fiscal Year 2008, securities lending transactions could be terminated on demand by either the WSIB or the borrower. The average weighted maturity of overall loans was 21 days.

Cash collateral was invested by the WSIB's agents in securities issued or guaranteed by the U.S. government, the WSIB's short-term investment pool (average final maturity of 136 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. JP Morgan indemnified the WSIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. JP Morgan's responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2008, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the WSIB incurred no losses during Fiscal Year 2008 resulting from a default by either the borrowers or the securities lending agents.

3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The workers' compensation fixed income investments are actively managed to exceed the return of the Comparable Market Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2008, the durations of the various fixed income classes were within the duration targets of the Comparable Market Index.

The workers' compensation fund investments include both U.S. agencies and corporate debt variable-rate securities, most of which reset periodically to the market interest rate. Because these securities frequently reprice to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date.

The following schedule presents the workers' compensation fund investments by type and provides information about the interest rate risks associated with the investments as of June 30, 2008. The schedule displays various asset classes held by maturity in years and credit ratings. Variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

Workers' Compensation Fund
June 30, 2008
(expressed in thousands)

		Maturity				
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**More than 10 years**	**Credit Rating**
Mortgages:						
Collateralized mortgage obligations	$ 1,751,792	$ 175	$ 226,682	$ 330,563	$ 1,194,372	Aaa
Pass throughs	1,620	22	1,598	-	-	Aaa
Commercial mortgage backed securities	619,962	25,976	234,718	358,214	1,054	Multiple
Corporate bonds-domestic	5,128,611	138,985	1,447,294	1,469,347	2,072,985	Multiple
Government securities-domestic:						
US government treasuries	422,431	61,506	360,925	-	-	Aaa
Treasury inflation protected securities	1,583,736	-	413,038	648,540	522,158	Aaa
	9,508,152	$ 226,664	$ 2,684,255	$ 2,806,664	$ 3,790,569	
Commingled index funds-domestic	807,227					
Commingled index funds-foreign	527,822					
Money market funds	176,006					
Securities lending collateral balances	2,151,635					
Total	$ 13,170,842					

Investments with multiple credit ratings are presented using the Moody's rating scale as follows:

Workers' Compensation Fund
Investments with Multiple Credit Ratings
June 30, 2008
(expressed in thousands)

Moody's Equivalent Credit Rating	Investment Type: Corporate Bonds - Domestic	Investment Type: Commercial Mortgage Backed Securities	Total
Aaa	$ 564,147	$ 557,966	$ 1,122,113
Aa1	51,286	61,996	113,282
Aa2	256,431	-	256,431
Aa3	666,720	-	666,720
A1	615,433	-	615,433
A2	666,720	-	666,720
A3	615,433	-	615,433
Baa1	461,575	-	461,575
Baa2	820,577	-	820,577
Baa3	410,289	-	410,289
Total	$ 5,128,611	$ 619,962	$ 5,748,573

4. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The rated debt investments of the workers' compensation funds as of June 30, 2008, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The WSIB policy states that the cost of no corporate fixed income issue shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2008.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the WSIB would not be able to recover the value of investments that are in the possession of an outside party. The WSIB does not have a policy specifically for custodial credit risk. The securities lending collateral balances are from securities required to be listed under GASB Statement No. 3 Category 3 – Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the WSIB's name. (This includes the amount of any repurchase agreement that exceeds the fair value of the underlying securities).

5. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The WSIB does not have a formal policy to limit foreign currency risk. The workers' compensation funds had $527.8 million invested in an international commingled equity index fund. As such, no currency denomination risk is presented.

6. Derivatives

The WSIB is authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. The WSIB mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Consistent with the WSIB authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2008. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers

is unavailable. At June 30, 2008, the only derivative securities held directly by the WSIB were collateralized mortgage obligations (CMOs) of $1.8 billion.

7. Reverse Repurchase Agreements

State law permits the WSIB to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in fair value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, the WSIB would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during Fiscal Year 2008 and there were no liabilities outstanding as of June 30, 2008.

D. INVESTMENTS – LOCAL GOVERNMENT INVESTMENT POOL (LGIP)

1. Summary of Investment Policies

The LGIP is managed and operated by the Office of the State Treasurer (OST). The OST is responsible for establishing the investment policy for the pool. It is reviewed annually by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP.

Investment Objectives. The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk.

The objectives of the LGIP investment policy, in priority order, are safety, liquidity, and return on investment. To provide for the safety and liquidity of funds deposited in the LGIP, the state treasurer and designated investment officers shall:

- Adhere to all restrictions on the investment of funds established by law and by the policy.
- Limit the purchase of investments in securities so that the weighted average maturity of the portfolio, as defined in Section VI of the policy, does not exceed 90 days.
- Limit the purchase of investments to securities that have a maximum final maturity of 397 days, with the exceptions listed in section VI of the policy.
- Limit the purchase of investments in securities other than those issued by the U.S. government or its agencies.
- Prepare regular reports of portfolio activity.

The primary objective of safety will be measured in cash, as opposed to accounting terms, where different, and in terms of the portfolio, as a whole, as opposed to the terms of any individual transaction. This means, for example, that a single transaction that generated an accounting loss but actually increased the amount of cash received in the portfolio would be considered to have increased capital, and not decreased it.

Within the restrictions necessary to ensure the safety and liquidity of funds, the investment portfolio of the LGIP will be structured to attain a market rate of return throughout an economic cycle.

Eligible Investments. Eligible investments are only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.84.080 and 43.250). Eligible investments include:

- Obligations of the U.S. government.
- Obligations of U.S. government agencies, or of corporations wholly owned by the U.S. government.
- Obligations of government sponsored corporations that are, or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve.
- Banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. If the banker's acceptance is rated by more than two NRSROs, it must have the highest rating from all of the organizations.
- Commercial paper provided that the OST adheres with policies and procedures of the WSIB regarding commercial paper (RCW 43.84.080(7)).
- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Obligations of the state of Washington or its political sub-divisions.

Investment Restrictions. To provide for the safety and liquidity of LGIP Funds, the investment portfolio will be subject to the following restrictions:

- All money market securities are required to be rated A-1 by Standard and Poor's Corporation and P-1 by Moody's Investors Services, Inc.
- Investments are restricted to fixed rate securities that mature in 397 days or less, and floating and variable rate securities that mature in 762 days or less.
- The weighted average maturity of the portfolio may not exceed 90 days.
- Cash generated through securities lending or reverse repurchase agreement transactions will not increase the dollar amount of specified investment types beyond stated limits.

2. Securities Lending

The LGIP investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the LGIP. During Fiscal Year 2008, the LGIP had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the LGIP. Furthermore, the contract with the lending agent requires them to indemnify the LGIP if the borrowers fail to return the securities (and if collateral is inadequate to replace the securities lent) or if the borrower fails to pay the LGIP for income distribution by the securities' issuers while the securities are on loan.

The LGIP cannot pledge or sell collateral securities received unless the borrower defaults. The LGIP investment policy limits the amount of reverse repurchase agreements and securities lending to 30 percent of the total portfolio. There were neither violations of legal or contractual provisions nor any losses resulting from a default of a borrower or lending agent during the year.

State statutes permit the LGIP to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The LGIP, which has contracted with a lending agent to lend securities in the LGIP, earns a fee for this activity. The lending agent lends securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent.

The cash is invested by the lending agent in repurchase agreements or money market instruments, in accordance with investment guidelines approved by the LGIP. The securities held as collateral and the securities underlying the cash collateral are held by the LGIP's custodian.

At June 30, 2008, all LGIP securities on loan were collateralized by cash and other securities and the average life of both the loans and the investment of cash received as collateral was one day.

3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The portfolio is managed in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940, i.e., money market funds. Much of the Rule 2a-7 investment guidelines are directed towards limiting interest rate risk, in order to maintain a stable net asset value.

The LGIP policy places a 90-day maximum on the weighted average maturity. Further, the maximum maturity of any security will not exceed 397 days, except securities utilized in repurchase agreements and U.S. Agency floating or variable rate notes may have a maximum maturity of 762 days, provided that they have reset dates within one year and which on any reset date can reasonably be expected to have a market value that approximates its amortized cost. As of June 30, 2008, the LGIP had a weighted average maturity of 39 days.

The following schedule presents the LGIP investments by type and provides information about the interest rate risks associated with the LGIP investments as of June 30, 2008.

Local Government Investment Pool (LGIP)
June 30, 2008
(expressed in thousands)

		Maturity	
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**
U.S. agency obligations	$ 5,624,473	$ 4,599,692	$ 1,024,781
Certificates of deposit	1,027,460	1,027,460	-
Repurchase agreements	215,768	215,768	-
Securities lending collateral	113,595	113,595	-
Total	$ 6,981,296	$ 5,956,515	$ 1,024,781

4. Credit Risk

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counter party, the LGIP will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The LGIP investment policy requires that securities purchased by the office be held by the master custodian, acting as an independent third party, in its safekeeping or trust department. All securities held as collateral were rated AAA. The market value of securities held for collateral must be at least 102 percent of the value of the repurchase agreement.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The LGIP mitigates concentration of credit risk by limiting the percentage of the portfolio invested with any one issuer.

5. Foreign Currency Risk - None.

6. Derivatives - None.

7. Reverse Repurchase Agreements

State law also permits the LGIP to enter into reverse repurchase agreements, which are, by contract, sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest.

The fair value of the securities pledged as collateral by the LGIP underlying the reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities.

If the dealers default on their obligations to resell these securities to the LGIP or to provide equal value in securities or cash, the LGIP would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest.

Repurchase agreements are collateralized at 102 percent. The collateral is priced daily and held by the LGIP's custodian in the state's name. Collateral for mortgage-backed repurchase agreements with a maturity date longer than seven days will be priced at 105 percent of the value of the repurchase agreement. Collateralized Mortgage Obligations (CMOs) used as collateral for repurchase agreements must pass the Federal Financial Institutions Examination Council (FFIEC) test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency.

During the Fiscal Year 2008, the LGIP did not enter into any reverse repurchase agreements and there were no obligations under reverse repurchase agreements outstanding at year-end.

E. INVESTMENTS – HIGHER EDUCATION SPECIAL REVENUE AND ENDOWMENT FUNDS

1. Summary of Investment Policies

The investments of the University of Washington represent 65 percent of the total investments in Higher Education Special Revenue and Endowment Funds.

The Board of Regents of the University of Washington is responsible for the management of the University's investments. The Board establishes investment policy, which is carried out by the Chief Investment Officer. The University of Washington Investment Committee (UWINCO) comprised of Board members and investment professionals advise on matters relating to the management of the University's investment portfolios. The majority of the University's investments are insured, registered, and held by the University's custodial bank as an agent for the University. Investments not held by the custodian include lent securities, mutual funds, venture capital, private equity, distressed, marketable alternatives, mortgages, real estate, and miscellaneous investments.

The University combines most short-term cash balances in the Invested Funds Pool. At June 30, 2008, the Invested Funds Pool totaled $868.6 million. The fund also owns units in the Consolidated Endowment Fund valued at $446 million on June 30, 2008. By University policy, departments with qualifying funds in the Invested Funds Pool receive distributions based on their average balances and on the type of balance. Campus depositors received 4.25 percent for Fiscal Year 2008. The difference between the actual earnings of the Invested Funds Pool and the calculated distributions is used to support activities benefiting all University departments.

The majority of the endowed funds are invested in a pooled fund called the Consolidated Endowment Fund (CEF). Individual endowments subscribe to or purchase units in the pool on the basis of a per unit valuation of the CEF at fair value on the last business day of the calendar quarter. Income is distributed based on the number of units held. The CEF income distribution is 5 percent of the average fair value of the CEF for the previous three years. State law allows for the spending of appreciation in the CEF.

The University records its permanent endowments at the lower of original value or current market value in the Restricted Nonexpendable Net Assets category. Of the total of approximately $1.3 billion permanent endowment funds (at fair value) as of June 30, 2008, the aggregate

amount of the deficiencies for all funds for which the fair value of the assets is less than the original gifts is $3.3 million.

Funds in irrevocable trusts managed by trustees other than the University are not reported in the financial statements. The fair value of these funds was approximately $53.2 million at June 30, 2008. Income received from these trusts was $2 million for the year ended June 30, 2008.

2. Unfunded Commitments

The University enters into contracts with investment managers to fund alternate investments. As of June 30, 2008, the University had unfunded commitments in the amount of $312.2 million.

3. Securities Lending

The University's investment policies permit it to lend its securities to broker dealers and other entities. The University's custodian lends securities for collateral in the form of cash or other securities, with the simultaneous agreement to return the collateral for the same securities in the future. U.S. securities are loaned and secured by collateral valued at 102 percent of the fair value of the securities plus any accrued interest.

Non-U.S. securities are loaned and secured by collateral valued at 105 percent of the fair value of the securities plus any accrued interest. At year-end, the University had no credit risk exposure to borrowers because the amounts the University owes the borrowers exceed the amounts the borrowers owe the University.

The contract with the custodian requires it to indemnify the University if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the University for income distributions by the securities' issuers while the securities are on loan.

Either the University or the borrower can terminate all securities loans on demand, although the average term of overall loans is 105 days. Cash collateral is invested in a short-term investment pool that had an average weighted maturity of 42 days as of June 30, 2008.

The relationship between the maturities of the investment pool and the University's loans is affected by the maturities of the securities loaned by other entities that use the custodian's pool. The University cannot determine the maturities of these loaned securities. The University cannot sell or pledge non-cash collateral unless the borrower defaults. Non-cash collateral at June 30, 2008, was $13.6 million.

Securities on loan at June 30, 2008, totaled $626 million, and are presented by investment type in the following schedule. The securities lending program resulted in net revenues of $3 million for the year ended June 30, 2008.

The following schedule presents the fair value of the University of Washington's investments by type at June 30, 2008.

University of Washington
June 30, 2008
(expressed in thousands)

Investment Type	Fair Value
Cash equivalents	$ 163,725
Cash equivalents - loaned	77,383
Domestic fixed income	475,958
Domestic fixed income - loaned	465,144
Foreign fixed income	34,117
Domestic equity	561,295
Domestic equity - loaned	59,491
Foreign equity	171,330
Foreign equity - loaned	24,024
Non-marketable alternatives	758,043
Marketable alternatives	497,332
Real estate	8,313
Miscellaneous	5,742
Total investments	3,301,897
Collateral from securities lending - cash	628,279
Total	$ 3,930,176

4. Interest Rate Risk

The University manages interest rate risk through its investment policies and the investment guidelines established with each manager. Each fixed income manager is assigned a maximum boundary for duration as compared to the manager's relevant benchmark index. The goal is to allow ample freedom for the manager to perform, while controlling the interest rate risk in the portfolio.

Modified duration, which estimates the sensitivity of a bond's price to interest rate changes, is based on Macaulay duration.

Macaulay duration is the basic calculation developed for a portfolio of bonds assembled to fund a fixed liability. Macaulay duration is calculated as follows: sum of discounted time-weighted cash flows divided by the bond price. Modified duration is calculated using the following formula:

Macaulay duration divided by (one plus yield-to-maturity divided by the number of coupon payments per year).

The Interest Rate Risk Schedule presents the modified duration of the University's investments for which duration is measured.

Approximately $181.4 million of additional domestic fixed income securities (including loaned) and $3.8 million of additional foreign fixed income securities, which in total makeup 5.6 percent of the University's investments, are not included in the duration figures below.

These investments, which are managed by the University or by the University's affiliates, are not invested under the same investment strategy or with the same custodian as those detailed in the following schedule.

University of Washington
Interest Rate Risk
Duration as of June 30, 2008
(expressed in thousands, modified duration in years)

	Consolidated Endowment Fund		Invested Funds Pool	
	Asset Value	Duration	Asset Value	Duration
Domestic Fixed Income				
Asset backed securities	$ 4,151	2.74	$ 39,457	1.40
Cash equivalents (Short-term money market)	20,996	0.04	135,280	0.01
Corporate bonds	17,585	8.28	7,288	1.95
Government & agencies	53,175	4.39	468,864	3.11
Mortgage related	37,087	4.71	216,936	2.95
Subtotal	132,994	4.26	867,825	2.50
Foreign Fixed Income				
International cash equivalents	82	4.05	-	-
International fixed	29,522	4.04	727	3.03
Total	$ 162,598	4.22	$ 868,552	2.50

5. Credit Risk

The University investment policies limit fixed income exposure to investment grade assets. The investment policy for the University's operating funds cash pool requires each manager to maintain a specific average AA rating as issued by a nationally recognized rating organization. The operating funds liquidity pool requires each manager to maintain an average quality rating of "A" and to have 50 percent of the assets invested in government and government agency issues.

The investment policy for the CEF reflects its long-term nature by specifying average quality rating levels by individual manager, but still restricting investments to investment grade credits.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the University will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The University does not have a formal policy regarding custodial credit risk. However, all University assets are held in the name of the University of Washington and are not subject to custodial credit risk.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The University mitigates concentration of credit risk by maintaining a portfolio of investment grade assets and by the due diligence of each manager.

6. Foreign Currency Risk

The University's investment policies permit investments in international equity and other asset classes that can include foreign currency exposure.

The University's investment strategy within the Invested Funds Pool is to hedge exposure to foreign currency. Within this pool, the University enters into foreign currency forward contracts, futures contracts, and options to hedge the foreign currency exposure.

At June 30, 2008, the University had net outstanding forward commitments to sell foreign currency with a total fair value of $19.1 million, which equals 0.58 percent of the total portfolio.

The following schedule details the market value of foreign denominated securities by currency type in the Consolidated Endowment Fund.

University of Washington
Consolidated Endowment Fund
Foreign Currency Risk
June 30, 2008
(expressed in thousands)

Foreign Currency	Market Value
Brazil-Real	$ 19,799
Britain-Pound	49,498
Canada-Dollar	30,936
China-Renminbi	32,173
E.M.U.-Euro	149,730
India-Rupee	22,274
Japan-Yen	58,160
Russia-Ruble	25,986
Taiwan-Dollar	14,849
Other (less than 3% each)	96,520
Total	$ 499,925

7. Derivatives

The University's investments include certain derivative instruments and structured notes that derive their value from a security, asset, or index. Such investments are governed by the University's investment policies and guidelines, which effectively constrain their use by establishing (a) duration parameters which limit price sensitivity to interest rate fluctuations (market risk), (b) minimum quality ratings at both the security and portfolio level, and (c) a market index as a performance benchmark.

8. Reverse Repurchase Agreements – None

F. INVESTMENTS - OFFICE OF THE STATE TREASURER (OST) CASH MANAGEMENT ACCOUNT

1. Summary of Investment Policies

The OST operates the state's Cash Management Account for investing Treasury/Trust Funds in excess of daily requirements.

The overall objective of the OST investment policy is to construct, from eligible investments noted below, an investment portfolio that is optimal or efficient. An optimal or efficient portfolio is one that provides the greatest expected return for a given expected level of risk, or the lowest expected risk for a given expected return.

The emphasis on "expected" is to recognize that investment decisions are made under conditions of risk and uncertainty. Neither the actual risk nor return of any investment decision is known with certainty at the time the decision is made.

Eligible Investments. Eligible investments are only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.84.080 and 43.250). Eligible investments include:

- Obligations of the U.S. government.
- Obligations of U.S. government agencies, or of corporations wholly owned by the U.S. government.
- Obligations of government sponsored corporations that are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve.
- Banker's acceptances purchased on the secondary market rated with the highest short-term credit rating of any two Nationally Recognized Statistical Rating Organizations (NRSROs), at the time of purchase. If the banker's acceptance is rated by more than two NRSROs, it must have the highest rating from all of the organizations.
- Commercial paper, provided that the State Treasurer adheres with policies and procedures of the State Investment Board regarding commercial paper (RCW 43.84.080(7).
- Certificates of deposit with financial institutions qualified by the Washington Public Deposit Protection Commission.
- Local Government Investment Pool, for proceeds of bonds or other debt obligations, when the investments are made in order to comply with the Internal Revenue Code of 1986, as amended.
- Obligations of the state of Washington or its political sub-divisions.

Investment Restrictions. To provide for the safety and liquidity of Treasury/Trust Funds, the Cash Management Account investment portfolio is subject to the following restrictions:

- The final maturity of any security will not exceed ten years.
- Purchase of collateralized mortgage obligations (CMO) requires prior approval from the treasurer or assistant treasurer; CMO securities must pass the Federal Institutions Examination Council (FFIEC) test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency.

- The allocation to investments subject to high sensitivity or reduced marketability will not exceed 15 percent of the daily balance of the portfolio.

Additionally, investments in non-government securities, excluding collateral of repurchase agreements, must fall within prescribed limits.

2. Securities Lending

State statutes permit the OST to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST, which has contracted with a lending agent to lend securities, earns a fee for this activity.

The OST lending agent lends U.S. Government and U.S. Agency securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent. The cash is invested by the lending agent in repurchase agreements or money market instruments, in accordance with investment guidelines approved by the OST.

The securities held as collateral and the securities underlying the cash collateral are held by the custodian. The contract with the lending agent requires them to indemnify the OST if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or if the borrower fails to pay the OST for income distribution by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults. At June 30, 2008, securities on loan approximated $507 million. All OST securities on loan were collateralized by cash and other securities and the average life of both the loans and the investment of cash received as collateral was one day.

The OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During Fiscal Year 2008, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST. There were no violations of legal or contractual provisions or any losses resulting from a default of a borrower or lending agent during the fiscal year.

3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of the investment. The Treasury/Trust investments are separated into portfolios with objectives based primarily on liquidity needs.

The OST's investment policy limits the weighted average maturity of its investments based on cash flow expectations. Policy also directs due diligence to be exercised with timely reporting of material deviation from expectations and actions taken to control adverse developments as may be possible.

The following schedule presents the fair value of the OST's investments by type at June 30, 2008.

Office of the State Treasurer (OST)
Cash Management Account
June 30, 2008
(expressed in thousands)

		Maturity		
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**
U.S. government obligations	$ 153,322	$ -	$ 153,322	$ -
U.S. agency obligations	4,016,808	1,379,601	2,214,883	422,324
Certificates of deposit	858,969	858,969	-	-
Repurchase agreements	730,000	730,000	-	-
Securities lending collateral	518,782	518,782	-	-
Total	$ 6,277,881	$ 3,487,352	$ 2,368,205	$ 422,324

4. Credit Risk

The OST limits credit risk by adhering to the OST investment policy which restricts the types of investments the OST can participate in, such as: U.S. government and agency securities, banker's acceptances, commercial paper, and certificates of deposit with qualified public depositories.

Custodial Credit Risk. The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The OST investment policy requires that securities purchased by the office to be held by the master custodian, acting as an independent third party, in its safekeeping or trust department. Securities utilized in repurchase agreements are subject to additional restrictions. These restrictions are designed to limit the OST's exposure to risk and insure the safety of the investment.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. For non-governmental securities, the OST limits its exposure to concentration of credit risk by restricting the amount of investments to no more than 5 percent of the portfolio to any single issuer. During Fiscal Year 2008, the non-governmental securities of a single issuer held by the Cash Management Account did not exceed 5 percent of the total portfolio.

5. Foreign Currency Risk - None.

6. Derivatives - None.

7. Reverse Repurchase Agreements

State law also permits the OST to enter into reverse repurchase agreements, which are, by contract, sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities pledged as collateral by the OST underlying the reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities. If the dealers default on their obligations to resell these securities to the OST or to provide equal value in securities or cash, the OST would suffer an economic loss equal to the differences between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. The OST investment policy limits the amount of reverse repurchase agreements to 30 percent of the total portfolio.

The market value, plus accrued income, of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 105 percent of the value of the repurchase agreement. The market value, plus accrued income, of securities utilized in all other repurchase agreements will be 102 percent of the value of the repurchase agreement. The securities utilized in repurchase agreements are priced daily and held by the Treasury/Trust custodian in the state's name. Collateralized Mortgage Obligations (CMO) utilized in repurchase agreements must pass the Federal Financial Institutions Examination Council (FFIEC) test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency.

During the Fiscal Year 2008, the OST did not enter into any reverse repurchase agreements and there were no obligations under reverse repurchase agreements outstanding at year-end.

Note 4
Receivables and Deferred/Unearned Revenues

A. GOVERNMENTAL FUNDS

Taxes Receivable

Taxes receivable at June 30, 2008, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property	$ 908,574	$ -	$ -	$ 288	$ 908,862
Sales	1,515,413	4,037	-	17,428	1,536,878
Business and occupation	475,041	-	-	-	475,041
Estate	6,242	11,918	-	-	18,160
Fuel	-	-	-	79,860	79,860
Other	4,838	-	-	400	5,238
Subtotals	2,910,108	15,955	-	97,976	3,024,039
Less: Allowance for uncollectible receivables	35,066	-	-	48	35,114
Total Taxes Receivable	$ 2,875,042	$ 15,955	$ -	$ 97,928	$ 2,988,925

Other Receivables

Other receivables at June 30, 2008, consisted of the following (expressed in thousands):

Other Receivables	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Public assistance (1)	$ 1,097,155	$ -	$ -	$ -	$ 1,097,155
Accounts receivable	21,048	148,902	1,784	81,012	252,746
Interest	26,532	12,610	3,962	19,221	62,325
Loans (2)	3,047	130,867	-	312,998	446,912
Long-term contracts (3)	2,093	-	19,326	123,647	145,066
Miscellaneous	152,165	21,324	16,916	112,886	303,291
Subtotals	1,302,040	313,703	41,988	649,764	2,307,495
Less: Allowance for uncollectible receivables (1)	946,935	17,871	-	31,392	996,198
Total Other Receivables	$ 355,105	$ 295,832	$ 41,988	$ 618,372	$ 1,311,297

Notes:

(1) Public assistance receivables mainly represent amounts owed the state as a part of the Support Enforcement Program at the Department of Social and Health Services for the amounts due from persons required to pay support for individuals currently on state assistance, and have a low realization expectation. Accordingly, the receivable is offset by a large allowance for uncollectible receivables.

(2) Significant long-term portions of loans receivable include $108 million in the Higher Education Special Revenue Fund for student loans and $305 million in Nonmajor Governmental Funds for low income housing, public works, and economic development/revitalization loans.

(3) Long-term contracts in Nonmajor Governmental Funds are for timber sales contracts.

Deferred Revenues

Deferred revenues at June 30, 2008, consisted of the following (expressed in thousands):

Deferred Revenues	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Property taxes	$ 889,373	$ -	$ -	$ 99	$ 889,472
Other taxes	359,518	9,892	-	116	369,526
Timber sales	2,093	-	19,326	123,647	145,066
Charges for services	22,855	170,323	364	49,066	242,608
Donable goods	6,605	-	-	-	6,605
Miscellaneous	48,375	8,628	-	521,266	578,269
Total Deferred Revenues	$ 1,328,819	$ 188,843	$ 19,690	$ 694,194	$ 2,231,546

B. PROPRIETARY FUNDS

Taxes Receivable

Taxes receivable at June 30, 2008, consisted of $5.1 million in liquor taxes reported in Nonmajor Enterprise Funds.

Other Receivables

Other receivables at June 30, 2008, consisted of the following (expressed in thousands):

	Business-Type Activities Enterprise Funds					Governmental Activities
Other Receivables	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Internal Service Funds
Accounts receivable	$ 130,305	$ -	$ 209,102	$ 34,283	$ 373,690	$ 5,334
Interest	98,868	-	1,438	4,019	104,325	2,741
Loans	-	-	5	-	5	-
Miscellaneous	602,587	478,182	2,523	1,708	1,085,000	10,531
Subtotals	831,760	478,182	213,068	40,010	1,563,020	18,606
Less: Allowance for uncollectible receivables	117,727	92,802	77,317	71	287,917	195
Total Other Receivables	$ 714,033	$ 385,380	$ 135,751	$ 39,939	$ 1,275,103	$ 18,411

Unearned Revenues

Unearned revenues at June 30, 2008, consisted of the following (expressed in thousands):

	Business-Type Activities Enterprise Funds					Governmental Activities
Unearned Revenues	Workers' Compensation	Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Total	Internal Service Funds
Charges for services	$ 5	$ -	$ 34,060	$ 93	$ 34,158	$ 2,504
Other taxes	8,055	-	-	-	8,055	-
Miscellaneous	12,278	-	705	3	12,986	1,637
Total Unearned Revenues	$ 20,338	$ -	$ 34,765	$ 96	$ 55,199	$ 4,141

C. FIDUCIARY FUNDS

Other Receivables

Other receivables at June 30, 2008, consisted of the following (expressed in thousands):

Other Receivables	Local Government Investment Pool	Agency Funds
Accounts receivable	$ -	$ 7,634
Interest	18,655	1,896
Miscellaneous	-	7,024
Subtotals	18,655	16,554
Less: Allowance for uncollectible receivables	-	945
Total Other Receivables	$ 18,655	$ 15,609

Unearned Revenues

Unearned revenues at June 30, 2008, consisted of $.8 million for service credit restorations reported in Pension and Other Employee Benefit Plans Funds.

Note 5
Interfund Balances and Transfers

A. INTERFUND BALANCES

Interfund balances as reported in the financial statements at June 30, 2008, consisted of the following (expressed in thousands):

	Due From				
Due To	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation
General	$ -	$ 2,062	$ -	$ 79,306	$ 217
Higher Educ. Special Revenue	40,382	-	-	24,655	265
Higher Education Endowment	23	-	-	9	-
Nonmajor Governmental Funds	189,428	2,535	2,078	174,263	2,120
Workers' Compensation	31	-	-	19	-
Unemployment Compensation	783	773	-	479	19
Higher Educ. Student Services	395	17,846	-	19,066	137
Nonmajor Enterprise Funds	6,905	461	-	2,769	710
Internal Service Funds	24,020	85,923	-	21,812	4,051
Fiduciary Funds	13,027	17,700	-	12,246	378
Totals	$ 274,994	$ 127,300	$ 2,078	$ 334,624	$ 7,897

Except as noted, all interfund balances are expected to be paid within one year from the date of the financial statements. These balances resulted from the time lag between the dates that (1) interfund goods and services were provided and when the payments occurred, and (2) interfund transfers were accrued and when the liquidations occurred.

Unemployment Compensation	Higher Education Student Services	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Totals
$ -	$ -	$ 12,265	$ 5,321	$ 33,713	$ 132,884
1	59,721	2,109	71,086	494	198,713
-	-	-	-	90	122
1,002	3	6,534	4,519	9,625	392,107
-	-	98	2,097	34	2,279
-	6	32	52	225	2,369
-	-	-	133	987	38,564
3	9	9,842	300	12	21,011
-	4,001	1,649	37,742	4,055	183,253
-	4	252	1	5,226	48,834
$ 1,006	$ 63,744	$ 32,781	$ 121,251	$ 54,461	$ 1,020,136

B. INTERFUND TRANSFERS

Interfund transfers as reported in the financial statements for the year ended June 30, 2008, consisted of the following (expressed in thousands):

	Transferred To				
Transferred From	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation
General	$ -	$ 163,397	$ 75	$ 1,033,483	$ -
Higher Educ. Special Revenue	-	-	12,967	44,691	-
Higher Education Endowment	-	66,583	-	30,366	-
Nonmajor Governmental Funds	19,385	21,826	1,315	857,056	15,287
Workers' Compensation	-	-	-	22,956	-
Higher Educ. Student Services	-	38,160	-	95,871	-
Nonmajor Enterprise Funds	52,622	-	-	159,245	-
Internal Service Funds	-	1,697	-	6,029	6,166
Totals	$ 72,007	$ 291,663	$ 14,357	$ 2,249,697	$ 21,453

Additionally, there were transfers of $330 million within the state's Pension Trust Funds. Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts designated for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, 3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Liquor Revolving Account and the State Lottery Account as required by law, and 5) transfer amounts to and from the General Fund as required by law. In Fiscal Year 2008, there were no significant transfers of a non-routine nature.

Higher Education Student Services	Nonmajor Enterprise Funds	Internal Service Funds	Totals
$ -	$ 6,368	$ 13,426	$ 1,216,749
67,038	-	2,366	127,062
196	-	-	97,145
2,257	-	23,420	940,546
-	-	-	22,956
-	-	111	134,142
-	16,873	-	228,740
53	-	68,571	82,516
$ 69,544	$ 23,241	$ 107,894	$ 2,849,856

Note 6
Capital Assets

Capital assets at June 30, 2008, are reported by the state of Washington within Governmental Activities and Business-Type Activities, as applicable.

A. GOVERNMENTAL CAPITAL ASSETS

The following is a summary of governmental capital asset activity for the year ended June 30, 2008 (expressed in thousands):

Capital Assets	Balances July 1, 2007	Additions	Deletions	Balances June 30, 2008
Capital assets, not being depreciated:				
Land	$ 1,012,060	$ 50,463	$ (11,473)	$ 1,051,050
Transportation infrastructure	15,548,209	1,361,493	-	16,909,702
Construction in progress	1,236,361	771,035	(523,753)	1,483,643
Art collections, library reserves, and museum and historical collections	109,490	2,762	(372)	111,880
Total capital assets, not being depreciated	17,906,120			19,556,275
Capital assets, being depreciated:				
Buildings	8,311,322	440,798	(29,935)	8,722,185
Accumulated depreciation	(2,766,197)	(233,333)	7,950	(2,991,580)
Net buildings	5,545,125			5,730,605
Furnishings, equipment, and collections*	3,611,073	278,775	(213,774)	3,676,074
Accumulated depreciation*	(2,212,296)	(235,266)	163,741	(2,283,821)
Net furnishings, equipment and collections	1,398,777			1,392,253
Other improvements*	1,002,996	111,817	(49,502)	1,065,311
Accumulated depreciation*	(388,435)	(38,715)	1,390	(425,760)
Net other improvements	614,561			639,551
Infrastructure (other)	662,920	27,169	-	690,089
Accumulated depreciation	(292,891)	(23,458)	-	(316,349)
Net infrastructure (other)	370,029			373,740
Total capital assets, being depreciated, net	7,928,492			8,136,149
Governmental Activities Capital Assets, Net	$ 25,834,612			$ 27,692,424

*Beginning balances restated to reflect change in fund reclassification.

B. BUSINESS-TYPE CAPITAL ASSETS

The following is a summary of business-type capital asset activity for the year ended June 30, 2008 (expressed in thousands):

Capital Assets	Balances July 1, 2007	Additions	Deletions	Balances June 30, 2008
Capital assets, not being depreciated:				
Land	$ 135,319	$ 621	$ -	$ 135,940
Construction in progress	177,670	129,772	(133,515)	173,927
Art collections	35	-	-	35
Total capital assets, not being depreciated	313,024			309,902
Capital assets, being depreciated:				
Buildings	1,892,987	206,795	(3,419)	2,096,363
Accumulated depreciation	(556,364)	(48,340)	904	(603,800)
Net buildings	1,336,623			1,492,563
Furnishings, equipment, and collections*	433,226	43,406	(11,375)	465,257
Accumulated depreciation*	(295,688)	(42,464)	7,872	(330,280)
Net furnishings, equipment, and collections	137,538			134,977
Other improvements*	56,266	2,477	(136)	58,607
Accumulated depreciation*	(19,025)	(2,558)	134	(21,449)
Net other improvements	37,241			37,158
Infrastructure (other)	34,247	662	-	34,909
Accumulated depreciation	(13,174)	(988)	-	(14,162)
Net infrastructure (other)	21,073			20,747
Total capital assets, being depreciated, net	1,532,475			1,685,445
Business-Type Activities Capital Assets, Net	$ 1,845,499			$ 1,995,347

*Beginning balances restated to reflect change in fund reclassification and prior period error correction.

C. DEPRECIATION

Depreciation expense for the year ended June 30, 2008, was charged to functions of the primary government as follows (expressed in thousands):

	Amount
Governmental Activities:	
General government	$ 61,106
Education - elementary and secondary (K-12)	3,768
Education - higher education	280,768
Human services	29,852
Adult corrections	30,708
Natural resources and recreation	38,192
Transportation	86,378
Total Depreciation Expense - Governmental Activities*	$ 530,772
Business-Type Activities:	
Workers' compensation	$ 10,281
Unemployment compensation	-
Higher education student services	67,868
Other	16,201
Total Depreciation Expense - Business-Type Activities	$ 94,350

*Includes $68 million internal service fund depreciation that was allocated to functions as a part of the net internal service fund activity.

D. CONSTRUCTION IN PROGRESS

Major construction commitments of the state at June 30, 2008, are as follows (expressed in thousands):

Agency / Project Commitments	Construction In Progress June 30, 2008	Remaining Project Commitments
Office of Financial Management:		
CRMS, CSI, GCLM, and TEMS Projects	$ 2,806	$ 6,855
Department of General Administration:		
Legislative and other buildings rehab., repairs and expansion, and other projects	240,357	144,915
Liquor Control Board:		
Distribution Center expansion project	15,970	135
Washington State Patrol:		
Academy rehab., repairs, and other projects	2,071	2,608
Department of Labor and Industries:		
Claim and account center, express filing, and other projects	5,052	4,132
Military Department:		
Renovation and remodeling of readiness facilities and other projects	2,391	2,002
Department of Social and Health Services:		
State hospital and juvenile rehab construction and renovations, and other projects	126,830	31,735
Department of Corrections:		
Correctional centers construction, improvements, and other projects	359,259	186,488
School for the Blind:		
Physical education building	4,764	4,236
Department of Transportation:		
State highway office and maintenance facilities, and ferry vessels and terminals	161,450	409,367
Transportation infrastructure	-	1,810,725
Parks and Recreation Commission:		
State park facilities projects	9,867	3,114
Department of Fish and Wildlife:		
Hatchery, region office, and wildlife area renovations, and other projects	3,389	9,430
Department of Natural Resources:		
Webster Green House	2,546	14
State Convention and Trade Center:		
MOHAI Property	20,995	37,005
Higher Education Facilities:		
University of Washington	145,449	76,594
Washington State University	205,319	163,788
Eastern Washington University	9,907	6,350
Central Washington University	29,194	34,500
The Evergreen State College	18,528	4,622
Western Washington University	61,232	20,608
Community and Technical Colleges	226,932	345,218
Other Agencies Miscellaneous Projects	3,262	6,045
Total Construction in Progress	$ 1,657,570	$ 3,310,486

Note 7
Long-Term Liabilities

A. BONDS PAYABLE

Bonds payable at June 30, 2008, are reported by the state of Washington within Governmental Activities and Business-Type Activities, as applicable.

The State Constitution and enabling statutes authorize the incurrence of state general obligation debt, to which the state's full faith, credit, and taxing power are pledged, either by the State Legislature or by a body designated by statute (presently the State Finance Committee). Legislative authorization arises from an affirmative vote of 60 percent of both legislative houses without voter consent, or from an affirmative vote of more than 50 percent of both legislative houses and a majority of the voters voting thereon. The State Finance Committee debt authorization does not require voter approval; however, it is limited to providing for: (1) temporary deficiencies in the state treasury (must be discharged within 12 months of the date of incurrence); for appropriations already made by the Legislature; or (2) refunding of outstanding obligations of the state.

Legal Debt Limitation

The State Constitution and current statutes generally limit debt authorized in the preceding procedures. The limitations prohibit the issuance of new debt if it would cause the maximum annual debt service, on all thereafter-outstanding general obligation debt, to exceed a specified percentage of the arithmetic mean of general state revenues for the preceding three fiscal years. These limitations are on the incurrence of new debt, not on the amount of debt service that may be paid by the state in future years.

As certified by the State Treasurer, the maximum debt authorization subject to limitation for Fiscal Year 2008 was $10.1 billion, under the statutory limitation. This computation excludes specific bond issues and types, which are not secured by general state revenues. Of the $13 billion general obligation bond debt outstanding at June 30, 2008, $7.2 billion is subject to the limitation. Based on the debt limitation calculation, the debt service requirements as of June 30, 2008, did not exceed the authorized debt service limitation.

For further information on the debt limit refer to the Certification of the Debt Limitation of the State of Washington available from the Office of the State Treasurer or at: http://tre.wa.gov/BondDebt/csd-limit_FY2008.pdf.

Authorized But Unissued

The state had a total of $10.2 billion in general obligation bonds authorized but unissued as of June 30, 2008, for the purpose of public building and schools construction and renovation, higher education purposes, and highways construction and improvement.

Interest Rates

Interest rates on fixed rate general obligation bonds ranged from 2.84 to 7.75 percent. Variable rate demand obligations (VRDO) of $147.2 million as of June 30, 2008, are remarketed on a weekly basis. Interest rates on revenue bonds range from 2 to 7.38 percent.

Debt Service Requirements to Maturity

General Obligations Bonds

General obligation bonds have been authorized and issued primarily to provide funds for:

- Acquisition and construction of capital facilities for public and common schools, higher education, public and mental health, corrections, natural resource conservation;
- Construction and improvements of highways, roads, bridges, ferries, and other transit improvements;
- Assistance to municipalities for construction of water and sewage treatment facilities and corrections facilities; and
- Refunding of general obligation bonds outstanding.

Outstanding general obligations bonds are presented in the Washington State Treasurer's Annual Report for 2008. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington, 98504-0200, phone number (360) 902-9000 or TTY (360) 902-8963.

Total debt service requirements to maturity for general obligation bonds as of June 30, 2008, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
General Obligation Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2009	$ 580,855	$ 617,560	$ 11,265	$ 4,897	$ 592,120	$ 622,457
2010	567,346	597,626	8,912	4,481	576,258	602,107
2011	552,678	573,492	8,196	4,140	560,874	577,632
2012	547,745	551,878	7,484	3,767	555,229	555,645
2013	573,887	523,265	7,081	3,480	580,968	526,745
2014-2018	3,194,091	2,294,691	28,017	33,887	3,222,108	2,328,578
2019-2023	2,969,230	1,612,875	9,114	23,411	2,978,344	1,636,286
2024-2028	2,505,525	922,692	-	-	2,505,525	922,692
2029-2033	1,435,948	276,894	-	-	1,435,948	276,894
Total Debt Service Requirements	$ 12,927,305	$ 7,970,973	$ 80,069	$ 78,063	$ 13,007,374	$ 8,049,036

Revenue Bonds

Revenue bonds are authorized under current state statutes, which provide for the issuance of bonds that are not supported, or not intended to be supported, by the full faith and credit of the state. These bonds pledge income derived from acquired or constructed assets for retirement of the debt and payment of the related interest.

Total debt service requirements for revenue bonds to maturity as of June 30, 2008, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Revenue Bonds	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2009	$ 11,087	$ 32,796	$ 25,565	$ 54,283	$ 36,652	$ 87,079
2010	10,456	32,473	29,416	52,582	39,872	85,055
2011	14,223	31,943	31,128	51,208	45,351	83,151
2012	15,417	31,080	32,631	49,819	48,048	80,899
2013	8,879	30,249	34,493	48,338	43,372	78,587
2014-2018	82,055	138,871	183,496	219,048	265,551	357,919
2019-2023	109,843	111,406	219,346	174,685	329,189	286,091
2024-2028	151,213	70,320	168,750	126,546	319,963	196,866
2029-2033	121,207	18,374	153,663	81,418	274,870	99,792
2034-2038	-	-	236,969	41,852	236,969	41,852
Total Debt Service Requirements	$ 524,380	$ 497,512	$ 1,115,457	$ 899,779	$ 1,639,837	$ 1,397,291

Governmental activities include revenue bonds outstanding at June 30, 2008, of $467.6 million issued by the Tobacco Settlement Authority (TSA), which is a blended component unit of the state. In November 2002, the TSA issued $517 million in bonds and transferred $450 million to the state to be used for increased health care, long-term care, and other programs. These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. The bonds are obligations of the TSA and are secured solely by the TSA's right to receive 29.2 percent of the state's tobacco settlement revenues, restricted investments of the TSA, undistributed TSA bond proceeds, and the earnings thereon held under the indenture authorizing the bonds. Total principal and interest remaining on the bonds is $924.2 million, payable through 2032. For the current year, pledged revenue and debt service were $54.5 million and $53.9 million, respectively.

Governmental activities also include revenue bonds outstanding at June 30, 2008, of $56.8 million issued by the Tumwater Office Properties (TOP), which is a blended component unit of the state. The bonds, issued in 2004, are payable solely from the trust estate pledged under the indenture, including rental payments. The bonds were used to construct an office building in Tumwater, Washington which the state occupied beginning in Fiscal Year 2006. The bonds are not a general obligation of the state, nor does the state pledge its full faith, credit, or taxing power for payment of these bonds. Total principal and interest remaining on the bonds is $97.7 million, payable through 2028. For the current year, pledged revenue and debt service were $5.1 million and $3.8 million, respectively.

The state's colleges and universities issue revenue bonds for the purpose of housing, dining, parking, and student facilities construction. These bonds are reported within business-type activities.

The University of Washington has issued general revenue bonds that are payable from general revenues, including student tuition and fees, grant indirect cost recovery, sales and services revenue, and investment income. General revenue bonds outstanding as of June 30, 2008, were $890.3 million.

The state's colleges and universities also issue bonds that are secured by a pledge of specific revenues. Total pledged revenues for the state's colleges and universities to repay the principal and interest of revenue bonds as of June 30, 2008, are as follows (expressed in thousands):

Source of Revenue Pledged	Housing and Dining Revenues (Net of Operating Expenses)	Student Facilities Fees and Earnings on Invested Fees	Parking Revenues (Net of Operating Expenses)	Bookstore Revenues **
Current revenue pledged	$ 44,218	$ 32,823	$ 10,110	$ -
Current year debt service	21,616	19,212	2,109	228
Total future revenues pledged *	535,320	541,799	41,852	5,938
Description of debt	Housing and dining bonds, issued in 1996-2008	Student facilities bonds, issued in 1998-2007 and refunding revenue bonds, issued in 2002-2006	Parking system and refunding revenue bonds, issued in 1999-2005	Student union and recreation center bonds issued in 2004
Purpose of debt	Construction and renovation of student housing projects	Construction, renovation and improvements to student activity facilities and sports stadium	Construction of parking garage and improvements	Construct new bookstore as part of new student union and recreation center building
Term of commitment	2013-2038	2019-2038	2024-2030	2034
Percentage of debt service to pledged revenues (current year)	48.9%	58.5%	20.9%	0.0%

* Total future principal and interest payments.

** Construction in-progress.

Debt Refundings

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds and certificates of participation. Colleges and universities may also refund revenue bonds.

When the state refunds outstanding bonds, the net proceeds of each refunding issue are used to purchase U.S. government securities that are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability has been removed from the government-wide statement of net assets.

Current Year Defeasances

Business-Type Activities

On May 6, 2008, the University of Washington refunded revenue bonds totaling $91.5 million with new bond issuances totaling $91 million. The refunded bonds had average interest rates ranging from 3.77 percent to 5.15 percent, and the new bonds have an average interest rate of 4.52 percent. The refunding decreased the total debt service payments to be made over the next 29.5 years by $1.1 million and resulted in an economic gain of $471 thousand.

Prior Year Defeasances

In prior years, the state defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the prior bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the state's financial statements.

General Obligation Bond Debt

On June 30, 2008, $742.8 million of general obligation bonded debt outstanding is considered defeased.

Revenue Bond Debt

On June 30, 2008, $94.2 million of revenue bonded debt outstanding is considered defeased.

B. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2008, are reported by the state of Washington within Governmental Activities and Business-Type Activities, as applicable.

Current state law authorizes the state to enter into long-term financing contracts for the acquisition of real or personal property and for the issuance of certificates of participation in the contracts. These certificates of participation do not fall under the general obligation debt limitations and are generally payable only from annual appropriations by the Legislature.

Other specific provisions could also affect the state's obligation under certain agreements. The certificates of participation are recorded for financial reporting purposes if the possibility of the state not meeting the terms of the agreements is considered remote.

Total debt service requirements for certificates of participation to maturity as of June 30, 2008, are as follows (expressed in thousands):

	Governmental Activities		Business-Type Activities		Totals	
Certificates of Participation	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
By Fiscal Year:						
2009	$ 49,792	$ 22,532	$ 53,306	$ 16,007	$ 103,098	$ 38,539
2010	42,708	13,792	24,658	10,076	67,366	23,868
2011	37,541	12,108	23,388	9,042	60,929	21,150
2012	34,012	10,573	22,488	8,033	56,500	18,606
2013	32,679	9,120	22,778	7,029	55,457	16,149
2014-2018	136,006	24,589	73,556	19,520	209,562	44,109
2019-2023	38,611	7,245	31,539	5,938	70,150	13,183
2024-2028	11,534	1,060	9,466	870	21,000	1,930
Total Debt Service Requirements	$ 382,883	$ 101,019	$ 261,179	$ 76,515	$ 644,062	$ 177,534

C. CLAIMS AND JUDGMENTS

Claims and judgments are materially related to three activities: workers' compensation, risk management, and health insurance. Workers' compensation is a business-type activity, and risk management and health insurance are governmental activities. A description of the risks to which the state is exposed by these activities, and the ways in which the state handles the risks, is presented in Note 1.E.

Workers' Compensation

At June 30, 2008, $36.0 billion of unpaid claims and claim adjustment expenses are presented at their net present and settlement value of $21.9 billion. These claims are discounted at assumed interest rates of 2.5 percent (time loss and medical) to 6.5 percent (pensions) to arrive at a settlement value.

The claims and claim adjustment liabilities of $21.9 billion as of June 30, 2008, include $12.0 billion for supplemental pension cost of living adjustments (COLAs) that by statute are not to be fully funded.

These COLA payments are funded on a pay-as-you-go basis, and the Workers' Compensation actuaries have indicated that future premium payments will be sufficient to pay these claims as they come due.

The remaining claims liabilities of $9.9 billion are fully funded by long-term investments, net of obligations under securities lending agreements.

Changes in the balances of workers' compensation claims liabilities during Fiscal Years 2007 and 2008 were as follows (expressed in thousands):

Workers' Compensation Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
2007	$ 17,755,101	3,721,024	(1,729,633)	$ 19,746,492
2008	$ 19,746,492	4,022,871	(1,882,215)	$ 21,887,148

Risk Management

Risk Management reports liabilities when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. It also includes an actuarial estimate of loss adjustment expenses for tort defense.

Because actual liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, it should be recognized that future loss emergence will likely deviate, perhaps materially, from the actuarial estimates. Liabilities are re-evaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic or social factors. The state is a defendant in a significant number of lawsuits pertaining to general and automobile liability matters.

As of June 30, 2008, outstanding and actuarially determined claims against the state and its agencies including actuarially projected defense costs were $649.8 million for which the state has recorded a liability. The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined liabilities.

At June 30, 2008, the Risk Management Fund held $141.8 million in cash and pooled investments designated for payment of these claims under the state's Self Insurance Liability Program.

Changes in the balances of risk management claims liabilities during Fiscal Years 2007 and 2008 were as follows (expressed in thousands):

Risk Management Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Tort Defense Payments	Balances End of Fiscal Year
2007	$ 527,198	102,693	(36,057)	(17,271)	$ 576,563
2008	$ 576,563	137,753	(44,906)	(19,649)	$ 649,761

Health Insurance

The Health Insurance Fund establishes a liability when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. Because actual claims liabilities depend on various complex factors, the process used in computing claims liabilities does not always result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

At June 30, 2008, health insurance claims liabilities totaling $69.9 million are fully funded with cash and investments, net of obligations under securities lending agreements.

Changes in the balances of Health Insurance claim liabilities during Fiscal Years 2007 and 2008 were as follows (expressed in thousands):

Health Insurance Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
2007	$ 53,584	503,994	(501,260)	$ 56,318
2008	$ 56,318	604,294	(590,678)	$ 69,934

D. LEASES

Leases at June 30, 2008, are reported by the state of Washington within Governmental Activities and Business-Type Activities, as applicable.

The state leases land, office facilities, office and computer equipment, and other assets under a variety of agreements. Although lease terms vary, most leases are subject to appropriation from the state Legislature to continue the obligation. If the possibility of receiving no funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Leases that represent acquisitions are classified as capital leases, and the related assets and liabilities are recorded in the financial records at the inception of the lease. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Certain operating leases are renewable for specified periods. In most cases, management expects that the leases will be renewed or replaced by other leases.

Land, buildings and equipment under capital leases as of June 30, 2008, include the following (expressed in thousands):

	Governmental Activities	Business-Type Activities
Land (non-depreciable)	$ 1,918	$ -
Buildings	14,041	1,759
Equipment	33,983	60,760
Less: Accumulated depreciation	(41,146)	(25,260)
Totals	$ 8,796	$ 37,259

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2008 (expressed in thousands):

	Capital Leases		Operating Leases	
Capital and Operating Leases	**Governmental Activities**	**Business-Type Activities**	**Governmental Activities**	**Business-Type Activities**
By Fiscal Year:				
2009	$ 6,534	$ 6,273	$ 97,562	$ 27,314
2010	3,690	4,019	88,079	27,002
2011	2,502	2,538	74,039	26,509
2012	1,349	984	60,085	25,202
2013	1,249	389	53,186	23,155
2014-2018	942	1,925	149,300	23,975
2019-2023	402	1,588	80,162	23,684
2024-2028	-	-	55,483	24,868
2029-2033	-	-	54,947	26,111
2034-2038	-	-	36,541	27,417
Total Future Minimum Payments	16,668	17,716	749,384	255,237
Less: Executory Costs and Interest Costs	(1,444)	(2,314)	-	-
Net Present Value of Future Minimum Lease Payments	$ 15,224	$ 15,402	$ 749,384	$ 255,237

The total operating lease rental expense for Fiscal Year 2008 for governmental activities was $168.1 million, of which $343 thousand was for contingent rentals. The total operating lease rental expense for Fiscal Year 2008 for business-type activities was $53.2 million.

E. LONG-TERM LIABILITY ACTIVITY

Long-term liability activity at June 30, 2008, is reported by the state of Washington within Governmental Activities and Business-Type Activities, as applicable.

Long-term liability activity for governmental activities for the Fiscal Year 2008 (expressed in thousands) is as follows:

Governmental Activities:	Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008	Amounts Due Within One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	$ 10,783,100	$ 1,891,150	$ 515,085	$ 12,159,165	$ 551,435
GO - zero coupon bonds (principal)	789,421	-	21,281	768,140	29,420
Subtotal - GO bonds payable	11,572,521	1,891,150	536,366	12,927,305	580,855
Accreted interest - GO - zero coupon bonds	264,811	30,245	-	295,056	-
Revenue bonds payable	607,720	-	83,340	524,380	11,087
Less: Deferred amounts for issuance discounts	(10,711)	-	(998)	(9,713)	-
Total Bonds Payable	12,434,341	1,921,395	618,708	13,737,028	591,942
Other Liabilities:					
Certificates of participation	381,950	43,016	42,083	382,883	49,792
Claims and judgments	740,610	960,148	874,005	826,753	201,615
Installment contracts	2,968	-	94	2,874	-
Leases	20,350	1,158	6,284	15,224	5,930
Compensated absences *	516,354	339,549	323,603	532,300	52,822
Unfunded pension obligations	96,715	17,304	603	113,416	-
Other postemployment benefits obligation	-	221,375	-	221,375	-
Other **	188,160	952,858	959,207	181,811	135,778
Total Other Liabilities	1,947,107	2,535,408	2,205,879	2,276,636	445,937
Total	$ 14,381,448	$ 4,456,803	$ 2,824,587	$ 16,013,664	$ 1,037,879

* Beginning balance has been restated to reflect the transfer of residual liability balances upon abolishment of a certain nonmajor enterprise fund.

** Beginning balance has been restated to reflect reclassification.

For Governmental Activities, payments on the certificates of participation are being repaid directly from various governmental funds. The compensated absences liability will be liquidated approximately 52.8 percent by the General Fund, 23.4 percent by the Higher Education Special Revenue Funds, and the balance by various other governmental funds. The claims and judgments liability will be liquidated primarily through the risk management fund, an internal service fund. Leases, installment contract obligations, and other liabilities will be repaid from various other governmental funds.

Long-term liability activity for business-type activities for the Fiscal Year 2008 (expressed in thousands) is as follows:

Business-Type Activities	Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008	Amounts Due Within One Year
Long-Term Debt:					
GO Bonds Payable:					
General obligation (GO) bonds	$ 71,500	$ -	$ 20,690	$ 50,810	$ 11,265
GO - zero coupon bonds (principal)	29,259	-	-	29,259	-
Subtotal - GO bonds payable	100,759	-	20,690	80,069	11,265
Accreted interest - GO - zero coupon bonds	30,617	3,712	-	34,329	-
Revenue bonds payable	889,222	293,230	66,995	1,115,457	25,565
Less: Deferred gain/loss on bond refunding	(8,520)	2,183	1,878	(8,215)	-
Plus: Unamortized amounts issuance premiums	4,814	8,308	750	12,372	-
Less: Deferred amounts for issuance discounts	(1,793)	-	(97)	(1,696)	-
Total Bonds Payable	1,015,099	307,433	90,216	1,232,316	36,830
Other Liabilities:					
Certificates of participation	245,572	26,509	10,902	261,179	53,306
Less: Deferred amounts for issuance discounts	(1,460)	147	-	(1,313)	-
Claims and judgments	19,752,945	2,283,767	141,862	21,894,850	1,893,672
Lottery prize annuities payable	388,709	104,846	146,960	346,595	57,923
Tuition benefits payable	930,400	173,600	-	1,104,000	46,900
Leases	21,038	5,607	11,243	15,402	5,732
Compensated absences *	52,133	26,357	23,261	55,229	23,007
Other postemployment benefits obligation	-	24,480	-	24,480	-
Other	165,495	429,323	556,152	38,666	34,713
Total Other Liabilities	21,554,832	3,074,636	890,380	23,739,088	2,115,253
Total	$ 22,569,931	$ 3,382,069	$ 980,596	$ 24,971,404	$ 2,152,083

* Beginning balance has been restated to reflect the abolishment of a certain Nonmajor Enterprise Fund. Residual liability balances are reflected in governmental activities beginning balances.

Note 8
No Commitment Debt

The Washington State Housing Finance Commission, Washington Higher Education Facilities Authority, Washington Health Care Facilities Authority, and Washington Economic Development Finance Authority (financing authorities) were created by the state Legislature. For financial reporting purposes, they are discretely presented as component units. These financing authorities issue bonds for the purpose of making loans to qualified borrowers for capital acquisitions, construction, and related improvements. These bonds do not constitute either a legal or moral obligation of the state or these financing authorities, nor does the state or these financing authorities pledge their faith and credit for the payment of such bonds. Debt service on the bonds is payable solely from payments made by the borrowers pursuant to loan agreements. Due to their no commitment nature, the bonds issued by these financing authorities are excluded from the state's financial statements.

The table below presents the June 30, 2008, balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

Financing Authorities	Principal Balance
Washington State Housing Finance Commission	$ 3,961,472
Washington Higher Education Facilities Authority	579,164
Washington Health Care Facilities Authority	4,300,000
Washington Economic Development Finance Authority	685,154
Total No Commitment Debt	$ 9,525,790

Note 9
Fund Balances Reserved for Other Specific Purposes

The nature and purposes of fund balances reserved for other specific purposes as of June 30, 2008, are listed below (expressed in thousands):

Fund Balances	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Totals
Reserved for Other Specific Purposes:					
Long-term student loans	$ -	$ 100,810	$ -	$ -	$ 100,810
Investments with trustees	679	-	-	513	1,192
Long-term receivables	68,327	1,393	-	1,716,440	1,786,160
Long-term investments	-	82,547	-	2,472	85,019
Emergency reserve	-	-	-	303,216	303,216
Petty cash	673	7,662	-	797	9,132
Total Reserved for Other Specific Purposes	$ 69,679	$ 192,412	$ -	$ 2,023,438	$ 2,285,529

Note 10
Deficit Net Assets

The Risk Management Fund, an internal service fund, had deficit net assets of $512.8 million at June 30, 2008. The Risk Management Fund is used to account for the claims, torts, and judgments generally arising from automobile and general government operations, and loss adjustment expenses for tort defense. These costs are supported by premium assessments to state agencies that are designed to cover current and future claim losses. Outstanding and incurred but not reported claims are actuarially determined and accrued, resulting in the deficit net assets.

The Self Insurance Liability Program, initiated in 1990, is intended to provide funds for the payment of all claims and loss adjustment expenses for tort defense.

The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined claims.

The following schedule details the changes in net assets for the Risk Management Fund during the fiscal year ended June 30, 2008 (expressed in thousands):

Risk Management Fund	Net Assets (Deficit)
Balance, July 1, 2007	$ (446,871)
Fiscal Year 2008 activity	(65,953)
Balance, June 30, 2008	$ (512,824)

Note 11
Retirement Plans

A. GENERAL

The state of Washington, through the Department of Retirement Systems, the Board for Volunteer Fire Fighters, and the Administrative Office of the Courts, administers 13 defined benefit retirement plans, three combination defined benefit/defined contribution retirement plans, and one defined contribution retirement plan covering eligible employees of the state and local governments.

Basis of Accounting

Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan.

Investments

Pension plan investments are presented at fair value. Fair values are based on published market prices, quotations from national security exchanges and security pricing services, or by the respective fund managers for securities that are not actively traded. Privately held mortgages are valued at cost, which approximates fair value. Certain pension trust fund investments, including real estate and private equity, are valued based on appraisals or independent advisors. The pension funds have no investments of any commercial or industrial organization whose market value exceeds 5 percent of each plan's net assets. Additional disclosure describing investments is provided in Note 3.

Department of Retirement Systems. As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement Systems (DRS) administers eight retirement systems comprising 12 defined benefit pension plans and three combination defined benefit/defined contribution plans as follows:

- Public Employees' Retirement System (PERS)
  - Plan 1 - defined benefit
  - Plan 2/3 - defined benefit
  - Plan 3 - defined contribution
- Teachers' Retirement System (TRS)
  - Plan 1 - defined benefit
  - Plan 2/3 - defined benefit
  - Plan 3 - defined contribution
- School Employees' Retirement System (SERS)
  - Plan 2/3 - defined benefit
  - Plan 3 - defined contribution
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)
  - Plan 1 - defined benefit
  - Plan 2 - defined benefit
- Washington State Patrol Retirement System (WSPRS)
  - Plan 1 - defined benefit
  - Plan 2 - defined benefit
- Public Safety Employees Retirement System (PSERS)
  - Plan 2 - defined benefit
- Judicial Retirement System (JRS)
  - Defined benefit plan
- Judges' Retirement Fund (Judges)
  - Defined benefit plan

Although some assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan.

Administration of the PERS, TRS, SERS, LEOFF, WSPRS, and PSERS systems and plans was funded by an employer rate of 0.16 percent of employee salaries. Administration of the JRS and Judges plans is funded by means of legislative appropriations.

The Department of Retirement Systems prepares a stand-alone financial report. Copies of the report that include financial statements and required supplementary information may be obtained by writing to Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or by visiting their website at: http:\\www.drs.wa.gov.

Board for Volunteer Fire Fighters. As established in chapter 41.24 RCW, the Washington Board for Volunteer Fire Fighters' administers the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF), a defined benefit plan. Administration of VFFRPF is funded through legislative appropriation.

Administrative Office of the Courts. As established in chapter 2.14 RCW, the Administrative Office of the Courts administers the Judicial Retirement Account (JRA), a defined contribution plan. Administration of JRA is funded through member fees.

Higher Education. In addition to the retirement plans administered by the state of Washington, eligible higher education state employees may participate in privately administered Higher Education Retirement defined contribution plans.

Plan descriptions, funding policies, a table of employer contributions required and paid for defined benefit plans, schedules of funded status and funding progress, defined benefit pension plans valuations, annual pension cost, and three year trend information follow at Note 11.B through G, respectively. Information related to changes in actuarial assumptions and methods, and changes in benefit provisions are provided in Note 11.H and I. For information related to defined contribution plans, refer to Note 11.J. Details on plan net assets and changes in plan net assets of pension plans and other employee benefit funds administered by the state are presented at Note 11.K.

Membership of each state administered plan consisted of the following at June 30, 2007, the date of the latest actuarial valuation for all plans:

Number of Participating Members

Plans Administered by the State	Retirees and Beneficiaries Receiving Benefits	Terminated Members Entitled To But Not Yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total Members
PERS 1	54,686	2,656	12,097	878	70,317
PERS 2	15,959	21,343	84,435	36,190	157,927
PERS 3	599	2,584	8,915	15,507	27,605
TRS 1	35,384	2,036	6,239	92	43,751
TRS 2	1,664	2,624	6,403	349	11,040
TRS 3	1,043	4,768	27,352	24,504	57,667
SERS 2	2,026	3,993	16,066	1,701	23,786
SERS 3	1,115	3,681	15,004	18,054	37,854
LEOFF 1	8,161	4	513	-	8,678
LEOFF 2	924	629	12,391	3,708	17,652
WSPRS 1	821	112	881	4	1,818
WSPRS 2	-	1	16	136	153
PSERS 2	-	-	-	2,755	2,755
JRS	130	1	11	-	142
Judges	15	-	-	-	15
JRA	2	198	11	-	211
VFFRPF	3,437	3,211	4,415	6,797	17,860
Total	125,966	47,841	194,749	110,675	479,231

Following is a summary of the number of government employers participating in state administered retirement plans as of June 30, 2008.

Number of Participating Employers

Plan	State Agencies	School Districts	Counties/ Municipalities	Other Political Subdivisions
PERS 1	147	239	173	202
PERS 2	176	-	272	475
PERS 3	162	-	199	265
TRS 1	63	276	-	-
TRS 2	22	277	-	-
TRS 3	30	302	-	-
SERS 2	-	299	-	-
SERS 3	1	303	-	-
LEOFF 1	-	-	71	16
LEOFF 2	7	-	219	148
WSPRS 1	1	-	-	-
WSPRS 2	1	-	-	-
PSERS 2	9	-	62	-
JRS	3	-	-	-
Judges	-	-	-	-
JRA	3	-	-	-
VFFRPF	-	-	-	650

Employers can participate in multiple systems and/or plans.

B. PLAN DESCRIPTIONS

Public Employees' Retirement System (PERS)

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees, have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill with less than five years to live.

PERS is comprised of and reported as three separate plans: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2008, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PERS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in PERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from PERS-covered employment.

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. The Higher Education Retirement Plans are not administered by DRS. Approximately 52 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

PERS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Benefits are also actuarially reduced when a Plan 1 member chooses a survivor option. The annual benefit is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during any 24 eligible consecutive compensation months), capped at 60 percent. A cost-of-living allowance is granted at age 66 based upon years of service times the COLA amount (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.)

Effective June 7, 2006, PERS Plan 3 members may be vested either after ten years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section J of this note for a description of the defined contribution component of PERS Plan 3.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of membership service is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance is granted at age 66 based upon years of service times the COLA amount (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle Consumer Price Index), capped at 3 percent annually. To offset the costs of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military, if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index) capped at 3 percent annually.

Beneficiaries of a PERS Plan 2 or 3 member with 10 years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of Labor and Industries.

In addition, a $150,000 death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of their covered employment, if found eligible by the Department of Labor and Industries.

PERS Plan 2 and Plan 3 members can purchase service credit for military service that interrupts employment. Additionally, PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible children may purchase credit on behalf of the deceased member.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury. PERS Plan 2 and Plan 3 members who apply for early retirement may, at the time of retirement, purchase up to five years of additional service credit. The cost of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

Beginning January 1, 2007 through December 31, 2007 judicial members of PERS were given the choice to participate in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices or judges in PERS Plans 1 and 2 were able to maker a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of average final compensation. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of average final compensation.

Members who chose to participate would:

- Accrue service credit at the higher multiplier beginning with the date of their election.
- Be subject to the benefit cap of 75 percent of AFC.
- Stop contributing to the Judicial Retirement Account (JRA).
- Pay higher contributions.
- Be given the option to increase the multiplier on past judicial service.

Members who did not choose to participate would:

- Continue to accrue service credit at the regular multiplier (i.e. 1 percent, 2 percent, or 3 percent).
- Continue to participate in JRA, if applicable.
- Never be a participant in the JBM program.
- Continue to pay contributions at the regular PERS rate.

Newly elected justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM program. Members required to join the JBM program would:

- Return to prior PERS Plan if membership had previously been established.
- Be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member.
- Accrue the higher multiplier for all judicial service.
- Not contribute to JRA.
- Not have the option to increase the multiplier for past judicial service.

Legislation passed in recent sessions effective in Fiscal Year 2008:

Effective July 1, 2007, PERS Plan 1 retirees, after being retired one year, will receive the annual COLA adjustment in July if they turn 66 years of age any time in the calendar year in which the COLA is given (Chapter 89, Laws of 2007).

Effective July 22, 2007, the portability of retirement benefits is changed for PERS members, allowing compensation that is reportable in all dual members systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan (Chapter 207, Laws of 2007).

Effective July 22, 2007, the $150,000 duty-related death benefit is extended to include death from occupational disease or duty-related illness. Also, the refund provided to survivors of PERS Plan 2 members that leave eligible employment after earning ten years of service credit and are subsequently killed in uniformed service to the United States while participating in Operation Enduring Freedom or Persian Gulf, Operation Iraqi Freedom is increased from 100 to 200 percent of the accumulated contributions in the member's account (Chapter 487, Laws of 2007).

Effective July 22, 2007, for judges and justices who are members of PERS, the formula for calculation of the amount at which they may purchase prior judicial service for a higher multiplier at retirement is changed. Any justice or judge who purchased prior service before the passage of this bill may have the cost recalculated with the new formula and have any excess payment returned (Chapter 123, Laws of 2007).

Effective after the January 2008 distribution, gain sharing for PERS Plan 1 and Plan 3 members is discontinued. Additional cost of living adjustments are provided to PERS Plan 1 retirees in July 2009 and new alternative early retirement provisions are created for PERS Plan 2 and Plan 3 members (Chapter 491, Laws of 2007).

Effective June 12, 2008, judges and justices who are members of PERS may purchase prior judicial service credit at a higher multiplier at retirement. During the period of January 1, 2009 – June 30, 2009, active and inactive PERS members who are not then serving at justices or judges, but who have served as such in the past, may request an increase in their benefit multiplier for past periods of judicial service and pay a cost that is the actuarial equivalent of the increase (Chapter 300, Laws of 2008).

There were no other material changes in PERS benefit provisions for the Fiscal Year ended June 30, 2008. PERS pension benefit provisions are established by chapter 41.40 and 41.34 RCW.

Teachers' Retirement System (TRS)

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. TRS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3. TRS members hired on or after July 1, 2007 have 90 days to make an irrevocable choice

to enroll in either plan 2 or Plan 3. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to TRS Plan 3. Notwithstanding, TRS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

TRS is comprised of and reported as three separate plans: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan.

TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the TRS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2008, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in TRS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment. TRS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in TRS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from TRS-covered employment.

TRS was legislatively established in 1938. Eligibility for membership requires service as a certificated public school employee in an instructional, administrative or supervisory capacity. TRS is comprised principally of non-state employees. TRS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

TRS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during the highest of any consecutive two compensation contract years), capped at 60 percent. A cost-of-living allowance is granted at age 66 based upon years of service times the COLA amount, increased by 3 percent annually. Plan 1 members may also elect to receive an additional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

TRS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, TRS Plan 3 members may be vested either after ten years of service or after five years of service, as long as 12 consecutive months of service were accrued after attainment of age 44. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section J of this note for a description of the defined contribution component of TRS Plan 3.

TRS Plan 1 provides death and temporary disability benefits. TRS Plan 1 members receive the following additional lump sum death benefits: retired members- $400 (if retired with ten years of full-time membership), $400 (if inactive with ten years of membership), active members $600 (if employed full-time at time of death). Members on temporary disability receive a monthly payment of $180 payable for up to two years, for the same occurrence. After five years of service, members on a disability retirement receive an allowance based on their salary and service to date of disability. Members enrolled in TRS prior to April 25, 1973, may elect a benefit based on the formula in effect at that time.

TRS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3, the

allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Beneficiaries of a TRS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

TRS members can purchase service credit for military service that interrupts employment. Additionally, TRS members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible children may purchase credit on behalf of the deceased member.

TRS members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance. Active TRS Plan 2 and Plan 3 members may also make a one-time purchase of up to seven years of service credit for education experience earned in a state or federal public school outside the state of Washington. Completion of at least five years of service under TRS is required.

In addition, a $150,000 death benefit is provided to the estate (or duly designated nominee) of a TRS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of their covered employment, if found eligible by the Department of Labor and Industries.

Beginning January 1, 2007 through December 31, 2007, judicial members of TRS were given the choice to participate in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices or judges in TRS Plan 1 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of average final compensation.

Members who chose to participate would:

- Accrue service credit at the higher multiplier beginning with the date of their election.
- Be subject to the benefit cap of 75 percent of AFC.
- Stop contributing to the Judicial Retirement Account (JRA).
- Pay higher contributions.
- Be given the option to increase the multiplier on past judicial service.

Members who did not choose to participate would:

- Continue to accrue service credit at the regular multiplier (i.e. 2 percent).
- Continue to participate in JRA, if applicable.
- Never be a participant in the JBM program.
- Continue to pay contributions at the regular TRS rate.

Newly elected justices and judges who chose to become TRS members on or after January 1, 2007, or who had not previously opted into TRS membership, were required to participate in the JBM program. Members required to join the JBM program would:

- Return to prior TRS Plan if membership had previously been established.
- Accrue the higher multiplier for all judicial service.
- Not contribute to JRA.
- Not have the option to increase the multiplier for past judicial service.

Legislation passed in recent sessions effective in Fiscal Year 2008:

Effective July 1, 2007, retirees of TRS Plan 1 will receive the annual COLA adjustment in July if they turn 66 years of age any time in the calendar year in which the COLA is given (Chapter 89, Laws of 2007).

Effective July 22, 2007, TRS members may purchase up to 24 consecutive months of service credit for each period of temporary duty disability (Chapter 49, Laws of 2007).

Effective July 22, 2007, the TRS Plan 1 post-retirement employment program was amended to be more consistent with the PERS Plan 1 program (Chapter 50, Laws of 2007).

Effective July 22, 2007, the portability of retirement benefits is changed for TRS members, allowing compensation that is reportable in all dual members systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing

the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan (Chapter 207, Laws of 2007).

Effective July 22, 2007, the $150,000 duty-related death benefit is extended to include death from occupational disease or duty-related illness (Chapter 487, Laws of 2007).

Effective July 22, 2007, for judges and justices who are members of TRS, the formula for calculation of the amount at which they may purchase prior judicial service for a higher multiplier at retirement is changed. Any justice or judge who purchased prior service before the passage of this bill may have the cost recalculated with the new formula and have any excess payment returned (Chapter 123, Laws of 2007).

Effective after the January 2008 distribution, gain sharing for TRS Plan 1 and Plan 3 members is discontinued. Additional cost of living adjustments are provided to TRS Plan 1 retirees in July 2009 and new alternative early retirement provisions are created for TRS Plan 2 and Plan 3 members (Chapter 491, Laws of 2007).

Effective June 12, 2008, TRS Plan 2 and Plan 3 members who work for at least five months of a six-month period, from September through August, and earn 630 hours or more within that six-month period now receive six months of service credit (Chapter 204, Laws of 2008).

Effective June 12, 2008, TRS Plan 2 and Plan 3 members need now have only two years of service credit in order to be eligible to purchase up to seven years of service credit for public education experience earned in another state or with the federal government (Chapter 101, Laws of 2008).

Effective June 12, 2008, the definition of "earnable compensation" for TRS members no longer excludes bonuses paid to teachers certified by the National Board of Professional Teaching Standards (Chapter 175, Laws of 2008).

There were no other material changes in TRS benefit provisions for the Fiscal Year ended June 30, 2008. TRS pension benefit provisions are established by chapters 41.32 and 41.34 RCW.

School Employees' Retirement System (SERS)

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes: Plan 2 is a defined benefit plan and Plan 3 is a combination defined benefit/defined contribution plan. As of September 1, 2000, the membership of classified school employees in PERS Plan 2 was transferred to SERS Plan 2. Those who joined on or after October 1, 1977, and by August 31, 2000, are SERS Plan 2 members unless they exercised an option to transfer their membership to Plan 3. SERS participants joining the system on or after September 1, 2000, and those who exercised their transfer option, are members of SERS Plan 3. SERS members hired on or after July 1, 2007 have 90 days to make an irrevocable choice to enroll in either Plan 2 or Plan 3. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to SERS Plan 3. Notwithstanding, SERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

SERS is comprised of and reported as two separate plans: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan.

SERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the SERS Plan 2 defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2008, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in SERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from SERS-covered employment. SERS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in SERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from SERS-covered employment.

The Legislature established SERS in 2000. Membership in the system includes all classified employees of school districts or educational service districts. SERS is comprised principally of non-state employees. SERS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

SERS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation (AFC) per year of service. (AFC is based on the greatest compensation during any eligible

consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.)

Effective June 7, 2006, SERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after 5 years of service if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by September 1, 2000. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at the age of 65. SERS Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section J of this note for a description of the defined contribution component of SERS Plan 3.

SERS Plan 2 and Plan 3 members can purchase service credit for military service that interrupts employment. Additionally, SERS members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible children may purchase credit on behalf of the deceased member.

SERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Beneficiaries of a SERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

SERS Plan 2 and Plan 3 members who apply for early retirement may, at the time of retirement, purchase up to five years of additional service credit. The cost of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit. SERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

In addition, a $150,000 death benefit is provided to the estate (or duly designated nominee) of a SERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of their covered employment, if found eligible by the Department of Labor and Industries.

Legislation passed in recent sessions effective in Fiscal Year 2008:

Effective July 22, 2007, SERS members may purchase up to 24 consecutive months of service credits (up from 12 months) for each period of temporary duty disability (Chapter 40, Laws of 2007).

Effective July 22, 2007, the portability of retirement benefits is changed for SERS members, allowing compensation that is reportable in all dual members systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan (Chapter 207, Laws of 2007).

Effective July 22, 2007, the $150,000 duty-related death benefit is extended to include death from occupational disease or duty-related illness (Chapter 487, Laws of 2007).

Effective after the January 2008 distribution, gain sharing for SERS Plan 3 members is discontinued. New alternative early retirement provisions were created for SERS Plan 2 and Plan 3 members (Chapter 491, Laws of 2007).

Effective June 12, 2008, SERS Plan 2 and Plan 3 members who work for at least five months of a six-month period, from September through August, and earn 630 hours or more within that six-month period now receive six months of service credit (Chapter 204, Laws of 2008).

There were no other material changes in SERS benefit provisions for the Fiscal Year ended June 30, 2008. SERS pension benefit provisions are established by chapter 41.35 and 41.34 RCW.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977, are Plan 2 members.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2008, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in LEOFF Plan 1 and 2 can elect to withdraw total employee contributions and interest earnings thereon upon separation from LEOFF-covered employment.

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters, and as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003, being a major exception.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan. LEOFF retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

LEOFF Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of FAS
20+	2.0%
10-19	1.5%
5-9	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at age 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service (FAS is based on the highest consecutive 60 months). Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible children may purchase credit on behalf of the deceased member.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least 10 percent of the FAS and 2 percent per year of service beyond 5 years. The first 10 percent of FAS is not subject to federal income tax.

LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of substantial gainful employment in any capacity in the future, can receive a catastrophic disability benefit from LEOFF Plan 2 equal to 70 percent of their final average salary subject to offsets for workers' compensation and Social Security disability benefits received.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

Beneficiaries of a LEOFF Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applied to any member killed in the course of employment, or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

In addition, a $150,000 death benefit is provided to the estate (or duly designated nominee) of a LEOFF member who dies as a result of injuries sustained in the course of employment or dies from occupational disease or duty-related illness such as an infectious disease or cancer resulting from a job-related exposure, if found eligible by the Department of Labor and Industries.

Eligible survivors of LEOFF Plan 2 members who are killed in the line of duty are reimbursed for the cost of on-going health care insurance coverage.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance. LEOFF Plan 2 members may purchase up to five years of additional service credit at retirement.

Legislation passed in recent sessions effective in Fiscal Year 2008:

Effective July 22, 2007, LEOFF Plan 2 members may purchase up to 24 consecutive months of service credit (up from 12 months) for each period of temporary duty disability (Chapter 40, Laws of 2007).

Effective July 22, 2007, the portability of retirement benefits is changed for LEOFF Plan 2 members, the LEOFF Plan 2 system is added to those plans which are able to combine service under portability for indexing purposes, allowing compensation that is reportable in all dual members systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan (Chapter 207, Laws of 2007).

Effective July 22, 2007, the $150,000 duty-related death benefit is extended to include death from occupational disease or duty-related illness (Chapter 487, Laws 2007).

Effective July 22, 2007, terms of the employer representatives on the LEOFF Plan 2 Board are now staggered, so that no more than one position expires in the same year. Legislative terms are now two years and run from January through December. After January 1, 2008, one member of the Board must be a retired LEOFF Plan 2 participant (Chapter 303, Laws of 2007).

Effective July 22, 2007, an exception is made to the five-year waiting period required before transferring prior PERS service credit for those Emergency Medical Technicians who joined LEOFF Plan 2 as a result of legislation passed in 2003 and 2005 and retire due to disability, or die (Chapter 304, Laws of 2007).

Effective June 12, 2008, active LEOFF members can choose whether or not to obtain and pay for Medicare coverage through a "divided referendum" process (Chapter 142, Laws of 2008).

Beginning in 2011, when state General Fund revenues increase by at least 5 percent over the prior biennium's revenues, the State Treasurer will transfer, subject to legislative appropriation, specific amounts into a Local Public Safety Enhancement Account. Half of this

transfer will be proportionately distributed to all jurisdictions with LEOFF Plan 2 members. The other half will be transferred to a LEOFF Retirement System Benefits Improvement Account to fund benefit enhancements for LEOFF Plan 2 members (Chapter 99, Laws of 2008).

There were no other material changes in LEOFF benefit provisions for the Fiscal Year ended June 30, 2008. LEOFF pension benefit provisions are established by chapter 41.26 RCW.

Washington State Patrol Retirement System (WSPRS)

WSPRS is a single-employer defined benefit retirement system. WSPRS participants who joined the system by December 31, 2002, are Plan 1 members. Those who joined on or after January 1, 2003, are Plan 2 members. For financial reporting and investment purposes, however, both plans are accounted for in the same pension fund.

WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to WSPRS accrue interest at a rate specified by DRS. During Fiscal Year 2008, the DRS-established rate on employee contributions was 5.364 percent annually, compounded monthly. Employees in WSPRS can elect to withdraw total employee contributions and interest earnings thereon upon separation from WSPRS-covered employment.

WSPRS was established by the Legislature in 1947. Any commissioned employee of the Washington State Patrol is eligible to participate. WSPRS benefits are established in state statute and may be amended only by the state Legislature.

There is no vesting requirement for active WSPRS members. Inactive WSPRS members are vested after the completion of five years of eligible service. Members are eligible for retirement at the age of 55 with five years of service, or after 25 years of service. The annual pension is 2 percent of the average final salary (AFS), capped at 75 percent, per year of service. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

WSPRS benefit provisions include death benefits; however, the system provides no disability benefits. Disability benefits may be available from the Washington State Patrol. If disability benefits are received, the member may be eligible to acquire service credit for the period of disability. In addition, a duty death benefit of $150,000 is provided to all WSPRS members.

For WSPRS Plan 1 members, AFS is based on the average of the two highest-paid service credit years and excludes voluntary overtime. Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the AFS, plus 5 percent of the AFS for each surviving child, with a limitation on the combined allowances of 60 percent of the AFS; or (2) If no eligible spouse, 30 percent of AFS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of AFS.

For WSPRS Plan 2 members, AFS is based on the average of the five consecutive highest-paid service credit years and excludes both voluntary overtime and cash-outs of annual and holiday leave. At retirement, Plan 2 members also have the option of selecting an actuarially reduced benefit in order to provide for post-retirement survivor benefits. Death benefits for active-duty Plan 2 members consist of the following: (1) If the member is single or has less than ten years of service, the return of the member's accumulated contributions; or (2) If the member is married, has an eligible child, or has completed ten years of service, a reduced benefit allowance reflecting a joint and 100 percent survivor option or 150 percent of the member's accumulated contributions, at the survivor's option.

WSPRS Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, WSPRS Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible children may purchase credit on behalf of the deceased member.

Beneficiaries of a WSPRS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not of normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

WSPRS members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

Legislation passed in recent sessions effective in Fiscal Year 2008:

Effective July 1, 2007, WSPRS member contribution rates will be no more than 7 percent of pay plus half the cost of any future benefit improvements. Employers will pay the contribution rate required to cover all system costs that are not covered by the member contribution rate. Also a minimum total contribution rate is established for WSPRS, beginning July 1, 2009 (Chapter 300, Laws of 2007).

Effective July 1, 2007, the WSPRS mandatory retirement age is changed from 60 to 65, but does not apply to the member serving as chief of the Washington State Patrol (Chapter 87, Laws of 2007).

Effective July 22, 2007, the $150,000 duty related death benefit is extended to include death from occupational disease or duty-related illness (Chapter 487, Laws of 2007).

Effective July 22, 2007, the spouse and dependent children of a WSPRS member who is killed in the course of employment will be reimbursed for any payments of medical premiums to the Washington State Health Care Authority (Chapter 488, Laws of 2007).

There were no other material changes in WSPRS benefit provisions for the Fiscal Year ended June 30, 2008. WSPRS pension benefit provisions are established by chapter 43.43 RCW.

Public Safety Employees' Retirement System (PSERS)

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS was created by the 2004 Legislature and became effective July 1, 2006.

PSERS Plan 2 membership includes:

- Full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and,
- Full-time employees hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

A "covered employer" is one that participates in PSERS. Covered employers include:

- State of Washington agencies: Department of Corrections, Parks and Recreation Commission, Gambling Commission, Washington State Patrol, and Liquor Control Board;
- Washington state counties; and,
- Washington cities except for Seattle, Tacoma and Spokane.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job: or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PSERS Plan 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2008, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

PSERS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

PSERS Plan 2 benefits are vested after an employee completes five years of eligible service. PSERS Plan 2 members may retire at the age 65 with five years of service, or at the age of 60 with at least ten years of PSERS service credit, with an allowance of 2 percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 retirees prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

PSERS Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, PSERS Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such

member die during this active duty, the member's surviving spouse or eligible children may purchase credit on behalf of the deceased member.

PSERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. Eligibility is based on the member being totally incapacitated for continued employment with a PSERS employer and leaving that employment as a result of the disability. The disability allowance is 2 percent of the average final compensation (AFC) for each year of service. AFC is based on the member's 60 consecutive highest creditable months of service. Service credit is the total years and months of service credit at the time the member separates from employment. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years).

Beneficiaries of a PSERS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, if found eligible by the Director of Labor and Industries.

In addition, a $150,000 death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of their covered employment, if found eligible by the Department of Labor and Industries.

Legislation passed in recent sessions effective in Fiscal Year 2008:

Effective July 22, 2007, PSERS members may purchase up to 24 consecutive months of service credit (up from 12 months) for each period of temporary duty disability (Chapter 40, Laws of 2007).

Effective July 22, 2007, the portability of retirement benefits is changed for PSERS Plan 2 members, allowing compensation that is reportable in all dual members systems, except in WSPRS, to be included in the calculation of all dual members' benefits, and removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan (Chapter 207, Laws of 2007).

Effective July 22, 2007, the $150,000 duty-related death benefit is extended to include death from occupational disease or duty-related illness (Chapter 487, Laws of 2007).

There were no other material changes to PSERS benefit provisions for the Fiscal Year ended June 30, 2008. PSERS pension benefit provisions have been established by chapter 41.37 RCW.

Judicial Retirement System (JRS)

JRS is an agent multiple-employer retirement system comprised of a single defined benefit plan. JRS retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings, employer contributions, employee contributions, and a special funding situation in which the state pays the remaining contributions.

During Fiscal Year 2008, the DRS established rate on employee contributions was 5.5 percent, compounded quarterly. JRS employees who are vested in the plan may not elect to withdraw their contributions upon termination. However, any JRS member that left the system before July 1, 1988, or his/her spouse, who was ineligible to receive a benefit at that time, may apply and receive a refund of such contributions from DRS, if said contributions have not been already refunded via a sundry claims appropriation from the state Legislature.

JRS was established by the Legislature in 1971. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971. The system was closed to new entrants on July 1, 1988, with new judges joining PERS Plan 2. JRS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

JRS members are eligible for retirement at the age of 60 with 15 years of service, or at the age of 60 after 12 years of service (if the member left office involuntarily) with at least 15 years after beginning judicial service.

The benefit per year of service calculated as a percent of average final compensation (AFC) is the table below. This benefit is capped at 75 percent of AFC, exclusive of cost of living increases.

Term of Service	Percent of AFC
15+	3.5%
10-14	3.0%

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires ten or

more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit a member would have received if retired. If the member is retired, the surviving spouse receives the greater of 50 percent of the member's retirement benefit or 25 percent of the AFC. For members with ten or more years of service, a disability benefit of 50 percent of AFC is provided.

There were no material changes in JRS benefit provisions for the Fiscal Year ended June 30, 2008. JRS pension benefit provisions are established by chapter 2.10 RCW.

Judges' Retirement Fund (Judges)

The Judges' Retirement Fund is an agent multiple-employer retirement system comprised of a single defined benefit plan. There are currently no active members in this plan. Retirement benefits were financed on a pay-as-you-go basis from a combination of past employee contributions, past employer contributions, and a special funding situation in which the state paid the remaining contributions. Retirees did not earn interest on their contributions, nor could they elect to withdraw their contributions upon termination.

The Judges' Retirement Fund was created by the Legislature on March 22, 1937, pursuant to RCW 2.12, to provide retirement benefits to judges of the Supreme Court, Court of Appeals, or Superior Courts of the state of Washington. Subsequent legislation required that all judges first appointed or elected to office on or after August 9, 1971, enter the Judicial Retirement System. Judges' retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

Judges' members are eligible for retirement at the age of 70 with ten years of service, or at any age with 18 years of service. Members are eligible to receive a partial retirement allowance after 12 years of credited service as a judge. With the exception of a partial retirement allowance, the member receives a benefit equal to one-half of the monthly salary being received as a judge at the time of retirement, or at the end of the term immediately prior to retirement if retirement occurs after the expiration of the member's term in office. A partial retirement allowance is based on the proportion of the member's 12 or more years of service in relation to 18 years of service. There were no material changes in Judges' benefit provisions for the Fiscal Year ended June 30, 2008. Judges' pension benefit provisions are established by chapter 2.12 RCW.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF)

VFFRPF is a cost-sharing multiple-employer retirement system that provides death and active duty disability benefits to all members, and optional defined benefit pension plan payments. VFFRPF retirement benefits are financed from a combination of investment earnings, member contributions, municipality contributions, and a special funding situation where the state pays the remaining contributions. VFFRPF members accrue no interest on contributions and may elect to withdraw their contributions upon termination.

The Volunteer Fire Fighters' Relief Act was created by the Legislature in 1935 and the pension portion of the act was added in 1945. Membership in the system requires volunteer firefighter service with a fire department of an electing municipality of Washington State, emergency work as an emergency medical technician with an emergency medical service district, or work as a commissioned reserve law enforcement officer.

Retirement benefits are established in state statute and may be amended only by the state Legislature. Since retirement benefits cover volunteer service, benefits are paid based on years of service not salary. Members are vested after ten years of service.

After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of $50 plus $10 per year of service. The maximum monthly benefit is $300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of $152,000. Funeral and burial expenses are also paid in a lump sum of $2,000 for members on active duty. Members receiving disability benefits at the time of death shall be paid $500. Members on active duty shall receive disability payments of $2,550 per month for up to six months; thereafter, payments are reduced. Disabled members receive $1,275 per month, their spouse $255, and dependent children $110. Benefit provisions for VFFRPF are established under the authority of chapter 41.24 RCW.

Effective July 1, 2001, the disability income benefits and the maximum survivor benefits under the Relief Plan are increased for increases in the Consumer Price Index. There were no material changes in VFFRPF benefit provisions for the Fiscal Year ended June 30, 2008.

C. FUNDING POLICIES

The Legislature provided for minimum contribution rates (Chapter 365, Laws of 2006 and Chapter 300, Laws of 2007). The LEOFF 2 Board also provided for minimum contribution rates. These minimum rates will go into effect beginning with the 2009-11 biennium.

Public Employees' Retirement System (PERS)

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials.

The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employer and employee rates were developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. These new higher rates are detailed below.

Required employer contribution rates:

- PERS employer of Supreme Court justices – PERS contribution rate plus 2.5 percent of pay.
- PERS employer of Court of Appeals and Superior Court judges – PERS contribution rate only (member pays the 2.5 percent difference).

Required member contribution rates:

- PERS 1 Supreme Court justices – PERS contribution rate of 6 percent plus 3.76 percent.
- PERS 1 Court of Appeals and Superior Court judges – PERS 1 rate of 6 percent plus 3.76 percent, plus the difference of 2.5 percent from employer listed above.
- PERS 2 Supreme Court justices – 250 percent of the PERS 2 member contribution rate less 2.5 percent of pay.
- PERS 2 Court of Appeals and Superior Court judges – 250 percent of the PERS 2 member contribution rate.
- PERS 3 Supreme Court justices, Court of Appeals and Superior Court judges – variable based on member's selection, subject to a 7.5 percent minimum.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW. Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2008 were as follows:

PERS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Members Not Participating in JBM			
Employer Rates:			
State agencies*	6.13%	6.13%	6.13%**
Local governmental units*	6.13%	6.13%	6.13%**
State gov't elected officials*	9.12%	6.13%	6.13%
Employee Rates:			
State agencies	6.00%	4.15%	***
Local governmental units	6.00%	4.15%	***
State gov't elected officials	7.50%	4.15%	***
Members Participating in JBM:			
Employer Rates:			
State agencies*	8.63%	8.63%	8.63%
Local governmental units*	6.13%	6.13%	6.13%
Employee Rates:			
State agencies	9.76%	7.88%	7.50%****
Local governmental units	12.26%	10.38%	7.50%****

* Includes an administrative expense rate of 0.16%.

** Plan 3 defined benefit portion only.

***Variable from 5% to 15% based on rate selected by the member.

**** Minimum rate.

Teachers' Retirement System (TRS)

Each biennium the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature.

Under TRS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

As a result of the implementation of the Judicial Benefit Multiplier (JBM) Program in January 2007, a second tier of employee rates were developed to fund, along with investment earnings, the increased retirement benefits of those judges that participate in the program.

The required employer contribution rate for a TRS employer of Supreme Court Justices, Court of Appeals Judges and Superior Court Judges equals the TRS contribution rate. The required member contribution rate of TRS 1 Supreme Court Justices, Court of Appeals Judges and Superior Court Judges is the TRS 1 rate of 6 percent plus 3.76 percent of pay. These higher rates, along with investment earnings, are intended to fund the increased retirement benefits of those judges that choose to participate in the JBM program.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2008 were as follows:

TRS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Members Not Participating in JBM			
Employer Rates*	5.82%	5.82%	5.82%**
Employee Rates:			
State agencies	6.00%	2.90%	***
Local governmental units	6.00%	2.90%	***
State gov't elected officials	7.50%	2.90%	***
Members Participating in JBM:			
Employer Rates*	5.82%	n/a	n/a
Employee Rates:			
State agencies	9.76%	n/a	n/a

* Includes an administrative expense rate of 0.16%.

** Plan 3 defined benefit portion only.

***Variable from 5% to 15% based on rate selected by the member.

School Employees' Retirement System (SERS)

Each biennium the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under SERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in chapters 41.35 and 41.45 RCW. Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2008 were as follows:

SERS Actual Contribution Rates

	Plan 2	Plan 3
Employer Rates:		
State agencies*	5.88%	5.88%**
Local governmental units*	5.88%	5.88%**
Employee Rates:		
State agencies	3.90%	***
Local governmental units	3.90%	***

* Includes an administrative expense rate of 0.16%.

** Plan 3 defined benefit portion only.

***Variable from 5% to 15% based on rate selected by the member.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

Beginning July 1, 2000, Plan 1 employers and employees contribute 0 percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF 2 Board. All employers are required to contribute at the level required by state statute.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2008 were as follows:

LEOFF Actual Contribution Rates

	Plan 1	Plan 2
Employer Rates:		
Ports and Universities*	n/a	8.80%
Local governmental units* (cities, counties, fire districts, etc)	0.16%	5.35%
Employee Rates:		
Ports and Universities	n/a	8.64%
Local governmental units* (cities, counties, fire districts, etc)	n/a	8.64%
State of Washington	n/a	3.45%

* Includes an administrative expense rate of 0.16%.

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 and Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF 2 Board. However, this special funding situation is not mandated by the State Constitution and this funding requirement could be returned to the employers by a change of statute. For Fiscal Year 2008, the state contributed $45.9 million to LEOFF Plan 2.

Washington State Patrol Retirement System (WSPRS)

Each biennium, the state Pension Funding Council adopts the employee and the state contribution rates. The employee and the state contribution rates are developed by the Office of the State Actuary to fully fund the plan. State statute also requires employees to contribute at a rate of at least 2 percent. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 43.43 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2008 were as follows:

WSPRS Actual Contribution Rates

	Plan 1	Plan 2
Employer Rates*	7.86%	7.86%
Employee Rates	6.65%	6.65%

* Includes an administrative expense rate of 0.16%.

Public Safety Employees' Retirement System (PSERS)

Each biennium the state Pension Funding Council adopts Plan 2 employers and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in chapters 41.37 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2008 were as follows:

PSERS Actual Contribution Rates

	Plan 2
Employer Rates:	
State agencies*	8.55%
Local governmental units*	8.55%
Employee Rates:	
State agencies	6.57%
Local governmental units	6.57%

* Includes an administrative expense rate of 0.16%.

Judicial Retirement System (JRS)

Contributions made are based on rates set in chapter 2.10 RCW. By statute, employees are required to contribute 7.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the JRS on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2008, the state contributed $ 9.6 million.

Judges' Retirement Fund (Judges)

Contributions made are based on rates set in chapter 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. As of June 30, 2008, there are no active members remaining in the Judges Retirement Fund and member contributions are no longer collected. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2008, however, no appropriations or contributions were made.

The Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF)

The retirement provisions of VFFRPF is funded through member contributions of $30 per year, employer contributions of $30 per year, and 40 percent of the Fire Insurance Premium Tax, as per chapter 41.24 RCW. VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination.

Administrative expenses are funded through fire insurance premium taxes and are maintained in a separate fund. Amounts not needed for administrative expenses are transferred to VFFRPF.

D. EMPLOYER CONTRIBUTIONS REQUIRED AND PAID

The following table presents the state of Washington's required contributions in millions of dollars to cost-sharing plans in accordance with the funding policy. All contributions required by the funding method were paid.

	2008	2007	2006
PERS Plan 1	$115.5	$59.9	$15.0
PERS Plan 2/3	159.6	118.3	73.1
TRS Plan 1	4.3	2.1	0.5
TRS Plan 2/3	0.5	0.6	0.5
SERS Plan 2/3	0.0	0.0	0.0
PSERS Plan 2	5.9	2.8	n/a
LEOFF Plan 1	0.0	0.0	0.0
LEOFF Plan 2	45.9	38.6	31.7
VFFRPF	5.0	6.0	4.6

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

E. FUNDED STATUS AND FUNDING PROGRESS

The funded status of each plan as of June 30, 2007, the most recent actuarial valuation date, is as follows (amounts in millions):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
PERS Plan 1	$ 9,715.0	$ 13,740.0	$ 4,025.0	71%	$ 676.0	595%
PERS Plan 2/3*	14,888.0	14,661.0	(227.0)	102%	7,157.0	0%
TRS Plan 1	8,302.0	10,826.0	2,524.0	77%	426.0	592%
TRS Plan 2/3*	5,277.0	4,682.0	(594.0)	113%	3,318.0	0%
SERS Plan 2/3*	2,133.0	1,998.0	(136.0)	107%	1,283.0	0%
LEOFF Plan 1	5,298.0	4,340.0	(958.0)	122%	43.0	0%
LEOFF Plan 2*	4,360.0	3,626.0	(734.0)	120%	1,234.0	0%
WSPRS 1/2*	800.0	702.0	(98.0)	114%	72.0	0%
PSERS 2*	14.0	12.0	(1.0)	117%	134.0	0%
JRS	1.0	85.0	85.0	1%	1.3	6,538%
Judges	4.0	3.9	(0.1)	103%	N/A	N/A
VFFRPF	151.0	136.0	(15.0)	111%	N/A	N/A

N/A indicates data not applicable

* These plans use the aggregate actuarial cost method which does not identify or separately amortize unfunded actuarial liabilities. For this reason, the information shown above has been prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress of these plans.

Source: Washington State Office of the State Actuary

The Schedules of Funding Progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs (Actuarial Accrued Liability) for benefits.

Additional information for the state's defined benefit plans as of the latest valuation date is presented on the following page.

Defined Benefit Pension Plans Administered by the State

For the Fiscal Year Ended June 30, 2008

The information was determined as part of the actuarial valuations at the dates indicated below. Additional information as of the latest valuation follows.

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3
Valuation date	6/30/2007	6/30/2007	6/30/2007	6/30/2007
Actuarial cost method	Frozen Initial Liability[1]	Aggregate[2]	Frozen Initial Liability[1]	Aggregate[2]
Amortization method				
Funding	Level %[4]	N/A	Level %[4]	N/A
GASB	Level $	N/A	Level $	N/A
Remaining amortization period (closed)	7/01/2008 - 6/30/2024	N/A	7/01/2008 - 6/30/2024	N/A
Asset valuation method	8-year Graded Smoothed Fair Value[6]	8-year Graded Smoothed Fair Value[6]	8-year Graded Smoothed Fair Value[6]	8-year Graded Smoothed Fair Value[6]
Actuarial assumptions				
Investment rate of return	8.00%	8.00%	8.00%	8.00%
Projected salary increases				
Salary inflation at 4.5%, plus the merit increases described below:				
Initial salary merit (grades down to 0%)	6.1%	6.1%	5.8%	5.8%
Merit period (years of service)	17 yrs	17 yrs	26 yrs	26 yrs
Includes inflation at	N/A	3.50%	N/A	3.50%
Cost of living adjustments	Uniform COLA[7]	CPI Increase, Maximum 3%	Uniform COLA[7]	CPI Increase, Maximum 3%

N/A indicates data not applicable.

[1] Based on a variation of the Frozen Initial Liability (FIL) cost method.

[2] The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

[3] Pay As You Go basis for funding.

[4] Level percent of payroll, including system growth.

[5] LEOFF Plan 2 assumes 4.5% of Salary Inflation

[6] Asset Valuation Method (8 year smoothed fair value): The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last 8 years or, if fewer, the completed years since adoption, at the following rates per year (annual recognition). We set the VFFRPF Annual Gain/Loss around their 7% expected rate of return instead of 8%.

Annual Gain/Loss			Annual Gain/Loss		
Rate of Return	Smoothing Period	Annual Recognition	Rate of Return	Smoothing Period	Annual Recognition
15% and up	8 years	12.50%	6-7%	2 years	50.00%
14-15%	7 years	14.29%	5-6%	3 years	33.33%
13-14%	6 years	16.67%	4-5%	4 years	25.00%
12-13%	5 years	20.00%	3-4%	5 years	20.00%
11-12%	4 years	25.00%	2-3%	6 years	16.67%
10-11%	3 years	33.33%	1-2%	7 years	14.29%
9-10%	2 years	50.00%	1% and lower	8 years	12.50%
7-9%	1 year	100.00%			

The actuarial value of assets is subject to a 30% market value corridor, so it will lie between 70% and 130% of the market value of assets.

SERS Plan 2/3	LEOFF Plan 1	LEOFF Plan 2	PSERS Plan 2	VFFRPF[8]
6/30/2007	6/30/2007	6/30/2007	6/30/2007	6/30/2007
Aggregate[2]	Frozen Initial Liability[1]	Aggregate[2]	Aggregate[2]	Entry Age[3]
N/A	Level %[4]	N/A	N/A	Level $
N/A	Level $	N/A	N/A	Level $
N/A	7/01/2008 - 6/30/2024	N/A	N/A	15 - Year Rolling
8-Year Graded Smoothed Fair Value[6]	8-Year Graded Smoothed Fair Value[6]	8-Year Graded Smoothed Fair Value[6]	8-Year Graded Smoothed Fair Value[6]	8-Year Smoothed Fair Value[6]
8.00%	8.00%	8.00%	8.00%	7.00%
6.9%	11.0%	11.0%	6.1%	N/A
17 yrs	21 yrs	21 yrs	17 yrs	N/A
3.50%	3.50%	3.50%	3.50%	N/A
CPI Increase, Maximum 3%	CPI Increase	CPI Increase, Maximum 3%	CPI Increase, Maximum 3%	None

[7] The Uniform COLA

Generally, all retirees over age 66 receive an increase in their monthly benefit at least once a year.

The Uniform COLA amount is calculated as the last unrounded Uniform COLA amount increased by 3%, rounded to the nearest penny.

These are some historical monthly COLA amounts per year of service

Date	Uniform COLA
7/1/2002	$1.14
7/1/2003	$1.18
7/1/2004	$1.21
7/1/2005	$1.25
7/1/2006	$1.29
7/1/2007	$1.33
7/1/2008	$1.73

[8] VFFRPF uses the Entry Funding Method for Pensions, and the Pay-As-You-Go Method for the Relief Costs

F. ANNUAL PENSION COST AND OTHER RELATED INFORMATION

Current year annual pension cost, net pension obligation (NPO) and related information for the current year for the state's single employer and agent multiple-employer defined benefit plans are as follows (amounts in millions):

	WSPRS	JRS	Judges
Annual Pension Cost and Net Pension Obligation:			
Annual required contribution	$ 6.8	$ 26.6	$ -
Interest on NPO	(1.1)	4.9	(0.2)
Adjustment to annual required contribution	1.8	(19.3)	0.6
Annual pension cost	7.5	12.2	0.5
Less: Contributions made	6.1	9.6	-
Increase (decrease) in NPO	1.4	2.5	0.5
NPO at beginning of year	(14.1)	72.3	(2.0)
NPO at end of year	$(12.7)	$74.8	$(1.5)
Actuarial assumptions:			
Valuation date	6/30/07	6/30/07	6/30/07
Actuarial cost method	Aggregate*	Entry age	Entry age
Amortization method	n/a	Level $	Level $
Remaining amortization Period (closed)	n/a	12/31/08	12/31/08
Asset valuation method	8 year graded smoothed fair value	Market	Market
Investment rate of return	8%	8%	8%
Projected salary increases	4.25%**	4.5%	N/A
Includes inflation at	3.5%	3.5%	3.5%
cost-of-living adjustments	CPI increase, max. 3%	3.0%	none

* The aggregate cost method does not identify or separately amortize unfunded actuarial accrued liabilities.
** WSPRS also assumes a variable salary merit increase for a merit period of 20 years.

G. THREE YEAR HISTORICAL TREND INFORMATION

The following table presents three-year trend information in millions for the plans listed:

	2008	2007	2006
WSPRS			
Annual pension cost	$ 7.5	$ 5.3	$ 7.1
% of APC contributed	89.2	61.8	44.0
NPO	$(12.7)	$(14.1)	$(16.2)
JRS			
Annual pension cost	$ 12.2	$ 13.9	$ 13.3
% of APC contributed	79.5	69.1	50.5
NPO	$ 74.8	$ 72.3	$ 68.0
Judges			
Annual pension cost	$ 0.5	$ 0.5	$ 0.7
% of APC contributed	0.0	60.0	42.9
NPO	$ (1.5)	$ (2.0)	$ (2.2)

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

H. CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

The demographic assumptions were updated as a result of the 2001 – 2006 Experience study. For details refer to the experience study available at: http://osa.leg.wa.gov/Actuarial_Services/Publications/experience_studies.htm.

The salary growth economic assumption for all retirement plans (except LEOFF 2) was decreased by the Pension Funding Council from 4.50 percent to 4.25 percent. The projected mortality tables were modified to recognize the fact that people are living longer.

I. CHANGES IN BENEFIT PROVISIONS

Pension funding legislation was adopted during the 2005 legislative session (Chapter 370, Laws of 2005), which created a short-term change in funding policy. The policy is to adopt annual contribution rates over a four-year "phase-in" period from 2005-2009, to suspend payments on the Plan 1 Unfunded Actuarial Accrued Liability (UAAL) in PERS and TRS during the 2005-07 biennium and to delay recognition of the cost of future gain-sharing benefits until the 2007-09 biennium. Legislation adopted during the 2007 legislative session (Chapter 491, Laws of 2007) repealed gain-sharing after the 2008 event. Additional legislation adopted a phase-in period to smooth the Plan 1 UAAL contribution rate increases from 2006-2009 (Chapter 56, Laws of 2006).

Legislation for 2006 and 2007 provided for target funding ratios and contribution rate floors for PERS, TRS, SERS, and WSPRS (Chapter 365, Laws of 2006 and Chapter 300, Laws of 2007). The LEOFF 2 Board in 2006 provided for minimum contribution rates. These changes will become effective July 1, 2009.

J. DEFINED CONTRIBUTION PLANS

Public Employees' Retirement System Plan 3 (PERS 3)

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS participants who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants who joined the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Refer to section B of this note for PERS plan descriptions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance the defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-

direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For Fiscal Year 2008, employee contributions required and made were $82.7 million, and plan refunds paid out were $38.3 million.

Teachers' Retirement System Plan 3 (TRS 3)

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligibility for membership requires service as a certificated public school employee working in an instructional, administrative or supervisory capacity. TRS participants who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3. Refer to section B of this note for TRS plan descriptions.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance the defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

TRS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, TRS Plan 3 investments are made in the same portfolio as that of the TRS 2/3 defined benefit plan.

For Fiscal Year 2008, employee contributions required and made were $234.7 million and plan refunds paid out were $84.8 million.

School Employees' Retirement System Plan 3 (SERS 3)

The School Employees' Retirement System (SERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include classified employees of school districts and educational service districts who joined PERS Plan 2 on or after October 1, 1977, and by August 31, 2000, and were transferred to SERS Plan 2 on September 1, 2000. Members transferred from PERS Plan 2 to SERS Plan 2 may exercise an option to transfer their membership to SERS Plan 3. SERS participants joining the system on or after September 1, 2000, and before July 1, 2007, are also members of SERS Plan 3. SERS members hired on or after July 1, 2007 have 90 days to choose between SERS Plan 2 and SERS Plan 3. Individuals who fail to make a choice will default to SERS Plan 3. Refer to section B of this note for SERS plan descriptions.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance the defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of SERS Plan 3.

SERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses incurred in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, SERS Plan 3 investments are made in the same portfolio as that of the SERS 2/3 defined benefit plan.

For Fiscal Year 2008, employee contributions required and made were $58.4 million and plan refunds paid out were $39.8 million.

Judicial Retirement Account (JRA)

The Judicial Retirement Account Plan was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state Administrative Office of the Courts, under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of PERS for their services as a judge. Vesting is full and immediate. There are three participating employers in JRA.

Member contributions equal 2.5 percent of covered salary and the state, as employer, matches this amount. Contributions are collected by the Administrative Office of the Courts. The employer and employee obligations to contribute are established per chapter 2.14 RCW. Plan provisions and contribution requirements are established in state statute and may be amended only by the State Legislature.

Beginning January 1, 2007 through December 31, 2007 any judicial members of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) eligible to participate in JRA were able to

make a one-time irrevocable election to discontinue future contributions to JRA, in lieu of prospective contributions to the Judicial Benefit Multiplier Program (JBM). Beginning January 1, 2007 any newly elected or appointed Supreme Court justice, Court of Appeals judge or Superior Court judge is no longer able to participate in JRA and is enrolled in the Judicial Benefit Multiplier Program (enacted in 2006). As of June 30, 2008, 189 JRA member judges have elected to enroll in JBM.

Current-year covered payroll for JRA employees was $4.3 million for the Fiscal Year ended June 30, 2008. For Fiscal Year 2008, the contribution requirement for JRA was $140 thousand. Actual employer and employee contributions were $70 and $70 thousand respectively. Plan benefits paid out for Fiscal Year 2008 totaled $6.5 million.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. The administrator of JRA may adopt rules establishing other payment options. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death shall be paid to the member's estate, or such person or persons, trust or organization as the member has nominated by written designation.

The Administrator of JRA has entered an agreement with DRS for accounting and reporting services, and the Washington State Investment Board (SIB) for investment services. DRS is responsible for all record keeping, accounting, and reporting of member accounts. As of April 2006, DRS also became responsible for collection of JRA contributions. The SIB has the full power to establish investment policy, develop participant investment options, and manage the investment funds from the JRA plan, consistent with the provisions of RCW 2.14.080 and RCW 43.84.150.

Higher Education Retirement Plans

The Higher Education Retirement Plans are privately administered defined contribution plans with a supplemental plan component. As authorized by RCW 28B.10, the plans cover higher education faculty and other positions as designated by each institution. The state and regional universities, the state college, and the state community and technical colleges each participate in a plan. Contributions to the plans are invested in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have at all times a 100 percent vested interest in their accumulations. RCW 28.B.10.400 et. seq. assigns the authority to establish and amend benefit provisions to: the board of regents of the state universities, the boards of trustees of the regional universities and the state college, and the state board for community colleges.

Employee contribution rates, based on age, range from 5 to 10 percent of salary. The employers match the employee contributions. The employer and employee obligations to contribute are established per chapter 28B.10 RCW. For Fiscal Year 2008, covered payroll was $1.7 billion. Employer and employee contributions were $141.7 million each, for a total of $141.6 million. These contribution amounts represent approximately 8 percent each of covered payroll for employers and employees.

The plans have a supplemental payment component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. Institutions make direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. The supplemental component is financed on a pay-as-you-go basis.

An actuarial valuation of the supplemental component of the Higher Education Retirement plans was done at the end of Fiscal Year 2007. The previous valuation was performed in 2004. The Unfunded Actuarial Accrued Liability (UAAL) calculated as of June 30, 2007 and 2004 was $120.2 million and $48.1 million, respectively, and is amortized over a 16.5-year period. The Annual Required Contribution (ARC) of $16.6 million consists of amortization of the UAL ($8.3 million) and normal cost (or current cost) ($7.8 million). The UAL and ARC were established using the entry age normal cost method. The actuarial assumptions included an investment rate of return of 6 to 8 percent and projected salary increases ranging from 2 to 4 percent. Approximately $1.5 billion and $1.1 billion of payroll were covered under these plans during 2007 and 2004, respectively.

The following table reflects the activity in the Net Pension Obligation for the years ended June 30 (in millions):

	2008	2007	2006
Annual required contribution	$16.6	$16.6	$5.1
Payments to beneficiaries	(1.9)	(1.9)	(1.6)
Increase (decrease) in NPO	14.6	14.7	3.5
NPO at beginning of year	24.0	9.3	5.8
NPO at end of year	$38.6	$24.0	$9.3

K. PLAN NET ASSETS AND CHANGES IN PLAN NET ASSETS

The Combining Statement of Plan Net Assets that follows presents the principal components of receivables, investments, and liabilities. The Combining Statement of Changes in Plan Net Assets presents the additions and deductions to plan net assets.

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2008
(expressed in thousands)

continued

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution
ASSETS						
Cash and pooled investments	$ 48,196	$ 84,341	$ 121	$ 40,564	$ 40,943	$ 5,172
Receivables:						
Employer accounts receivable	5,230	39,367	4,004	3,317	13,091	20,452
Member accounts receivable (net of allowance)	586	158	-	359	5	-
Due from other funds	964	-	10,991	725	5,167	19,874
Interest and dividends	32,436	53,472	2,580	27,172	17,939	8,016
Investment trades pending	63,757	108,034	2,545	53,229	43,275	7,903
Total Receivables	102,973	201,031	20,120	84,802	79,477	56,245
Investments, Noncurrent:						
Public equity	4,073,647	7,286,706	326,779	3,400,955	2,302,282	2,513,777
Fixed income	2,331,202	3,856,179	187,004	1,946,245	1,317,513	553,749
Private equity	2,366,373	3,914,357	189,825	1,975,608	1,337,391	562,103
Real estate	1,485,876	2,457,875	119,194	1,240,509	839,765	352,952
Security lending	678,991	1,121,731	54,377	566,783	383,898	161,018
Liquidity	234,117	-	563,869	245,159	144,115	59,259
Tangible assets	76,573	126,663	6,142	63,928	43,276	18,189
Other	95,018	23,650	7,622	79,328	53,701	22,570
Total Investments, Noncurrent	11,341,797	18,787,161	1,454,812	9,518,515	6,421,941	4,243,617
Total Assets	$ 11,492,966	$ 19,072,533	$ 1,475,053	$ 9,643,881	$ 6,542,361	$ 4,305,034
LIABILITIES						
Obligations under security lending agreements	$ 678,991	$ 1,121,987	$ 54,121	$ 566,783	$ 376,862	$ 168,053
Accrued liabilities	167,954	276,723	6,600	140,608	109,696	20,490
Due to other funds	98	12,351	120	65	20,963	5,172
Unearned revenues	127	379	-	171	37	-
Total Liabilities	847,170	1,411,440	60,841	707,627	507,558	193,715
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 149)	10,645,796	17,661,093	1,414,212	8,936,254	6,034,803	4,111,319
Deferred compensation participants	-	-	-	-	-	-
Total Net Assets	$ 10,645,796	$ 17,661,093	$ 1,414,212	$ 8,936,254	$ 6,034,803	$ 4,111,319

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2008
(expressed in thousands)

continued

	SERS Plan 2/3 Defined Benefit	SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	PSERS Plan 2
ASSETS						
Cash and pooled investments	$ 16,705	$ 1,501	$ 27,234	$ 24,534	$ 5,080	$ 450
Receivables:						
Employer accounts receivable	5,984	5,030	-	14,466	488	1,498
Member accounts receivable (net of allowance)	4	-	38	25	117	-
Due from other funds	1,513	6,898	4	7	2	1
Interest and dividends	7,396	2,585	18,374	16,064	2,828	101
Investment trades pending	17,125	2,547	36,181	31,674	5,574	194
Total Receivables	32,022	17,060	54,597	62,236	9,009	1,794
Investments, Noncurrent:						
Public equity	929,459	594,022	2,311,730	2,023,728	356,106	12,384
Fixed income	531,896	187,388	1,322,921	1,158,107	203,786	7,087
Private equity	539,920	190,215	1,342,879	1,175,579	206,861	7,194
Real estate	339,023	119,439	843,211	738,161	129,890	4,517
Security lending	155,019	54,488	385,067	336,902	59,384	2,089
Liquidity	65,891	15,981	127,349	128,381	20,163	3,180
Tangible assets	17,471	6,155	43,454	38,040	6,694	233
Other	21,679	7,638	53,921	47,203	8,307	289
Total Investments, Noncurrent	2,600,358	1,175,326	6,430,532	5,646,101	991,191	36,973
Total Assets	$ 2,649,085	$ 1,193,887	$ 6,512,363	$ 5,732,871	$ 1,005,280	$ 39,217
LIABILITIES						
Obligations under security lending agreements	$ 155,337	$ 54,170	$ 385,066	$ 336,902	$ 59,383	$ 2,089
Accrued liabilities	43,460	6,604	92,118	80,348	14,315	495
Due to other funds	7,133	1,501	16	145	7	76
Unearned revenues	30	-	-	68	-	-
Total Liabilities	205,960	62,275	477,200	417,463	73,705	2,660
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 149)	2,443,125	1,131,612	6,035,163	5,315,408	931,575	36,557
Deferred compensation participants	-	-	-	-	-	-
Total Net Assets	$ 2,443,125	$ 1,131,612	$ 6,035,163	$ 5,315,408	$ 931,575	$ 36,557

Combining Statement of Plan Net Assets
Pension and Other Employee Benefit Funds

June 30, 2008
(expressed in thousands)

concluded

	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
ASSETS						
Cash and pooled investments	$ 344	$ 8	$ 3,617	$ 36,969	$ 802	$ 336,581
Receivables:						
Employer accounts receivable	9	-	-	-	-	112,936
Member accounts receivable (net of allowance)	-	-	4	-	1,760	3,056
Due from other funds	1	-	10	93	1	46,251
Interest and dividends	4	-	-	394	-	189,361
Investment trades pending	-	-	-	779	-	372,817
Total Receivables	14	-	14	1,266	1,761	724,421
Investments, Noncurrent:						
Public equity	-	13,023	-	45,787	2,431,642	28,622,027
Fixed income	-	-	-	23,316	-	13,626,393
Private equity	-	-	-	28,902	-	13,837,207
Real estate	-	-	-	18,148	-	8,688,560
Security lending	46	1	332	19,626	78	3,979,830
Liquidity	625	-	5	3,955	1	1,612,050
Tangible assets	-	-	-	935	-	447,753
Other	-	-	-	1,087	-	422,013
Total Investments, Noncurrent	671	13,024	337	141,756	2,431,721	71,235,833
Total Assets	$ 1,029	$ 13,032	$ 3,968	$ 179,991	$ 2,434,284	$ 72,296,835
LIABILITIES						
Obligations under security lending agreements	$ 46	$ -	$ 332	$ 11,617	$ 79	$ 3,971,818
Accrued liabilities	30	-	3	1,999	11	961,454
Due to other funds	-	-	-	-	-	47,647
Unearned revenues	-	-	-	-	-	812
Total Liabilities	76	-	335	13,616	90	4,981,731
NET ASSETS						
Net assets held in trust for:						
Pension Benefits (Schedule of Funding Progress by Plan begins on Page 149)	953	13,032	3,633	166,375	-	64,880,910
Deferred compensation participants	-	-	-	-	2,434,194	2,434,194
Total Net Assets	$ 953	$ 13,032	$ 3,633	$ 166,375	$ 2,434,194	$ 67,315,104

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

continued

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution
ADDITIONS						
Contributions:						
Employers	$ 221,787	$ 318,740	$ -	$ 113,088	$ 109,522	$ -
Members	50,949	278,445	82,707	30,794	15,631	234,661
State	-	-	-	-	-	-
Participants	-	-	-	-	-	-
Total Contributions	272,736	597,185	82,707	143,882	125,153	234,661
Investment Income:						
Net appreciation (depreciation) in fair value	(425,711)	(713,629)	(74,910)	(355,165)	(238,142)	(256,969)
Interest and dividends	353,150	554,915	32,613	296,470	186,703	91,247
Less: investment expenses	(42,149)	(66,215)	(3,984)	(35,384)	(22,132)	(11,923)
Net investment income (loss)	(114,710)	(224,929)	(46,281)	(94,079)	(73,571)	(177,645)
Transfers from other pension plans	343	316	68,408	5	339	168,817
Other additions	-	-	-	-	-	-
Total Additions	158,369	372,572	104,834	49,808	51,921	225,833
DEDUCTIONS						
Pension benefits	1,027,934	170,317	22	844,986	36,016	45
Pension refunds	5,573	26,575	38,291	1,000	2,190	84,776
Transfers to other pension plans	62	70,761	262	-	168,770	513
Administrative expenses	530	2,567	-	114	116	-
Distributions to participants	-	-	-	-	-	-
Total Deductions	1,034,099	270,220	38,575	846,100	207,092	85,334
Net Increase (Decrease)	(875,730)	102,352	66,259	(796,292)	(155,171)	140,499
Net Assets - Beginning	11,521,526	17,558,741	1,347,953	9,732,546	6,189,974	3,970,820
Net Assets - Ending	$ 10,645,796	$ 17,661,093	$ 1,414,212	$ 8,936,254	$ 6,034,803	$ 4,111,319

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

continued

	SERS Plan 2/3 Defined Benefit	SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	PSERS Plan 2
ADDITIONS						
Contributions:						
Employers	$ 52,139	$ -	$ 8	$ 73,363	$ 6,064	$ 11,700
Members	20,911	58,381	927	116,441	5,345	11,740
State	-	-	-	45,926	-	-
Participants	-	-	-	-	-	-
Total Contributions	73,050	58,381	935	235,730	11,409	23,440
Investment Income:						
Net appreciation (depreciation) in fair value	(97,536)	(55,130)	(242,251)	(215,478)	(37,472)	(1,435)
Interest and dividends	76,711	30,780	197,810	165,778	30,063	748
Less: investment expenses	(9,135)	(3,620)	(23,676)	(20,615)	(3,594)	(78)
Net investment income (loss)	(29,960)	(27,970)	(68,117)	(70,315)	(11,003)	(765)
Transfers from other pension plans	2,118	89,449	-	117	90	3
Other additions	-	-	-	-	-	-
Total Additions	45,208	119,860	(67,182)	165,532	496	22,678
DEDUCTIONS						
Pension benefits	22,628	8	313,530	27,505	32,963	-
Pension refunds	2,044	39,815	150	7,639	268	152
Transfers to other pension plans	89,448	183	4	-	-	2
Administrative expenses	64	-	174	198	23	11
Distributions to participants	-	-	-	-	-	-
Total Deductions	114,184	40,006	313,858	35,342	33,254	165
Net Increase (Decrease)	(68,976)	79,854	(381,040)	130,190	(32,758)	22,513
Net Assets - Beginning	2,512,101	1,051,758	6,416,203	5,185,218	964,333	14,044
Net Assets - Ending	$ 2,443,125	$ 1,131,612	$ 6,035,163	$ 5,315,408	$ 931,575	$ 36,557

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

concluded

	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
ADDITIONS						
Contributions:						
Employers	$ 112	$ 70	$ -	$ 1,082	$ -	$ 907,675
Members	112	70	-	117	-	907,231
State	9,600	-	-	5,020	-	60,546
Participants	-	-	-	-	188,735	188,735
Total Contributions	9,824	140	-	6,219	188,735	2,064,187
Investment Income:						
Net appreciation (depreciation) in fair value	1	(1,311)	13	(5,097)	(238,553)	(2,958,775)
Interest and dividends	99	426	171	5,671	72,425	2,095,780
Less: investment expenses	(2)	(20)	(6)	(559)	(3,264)	(246,356)
Net investment income (loss)	98	(905)	178	15	(169,392)	(1,109,351)
Transfers from other pension plans	-	-	-	-	-	330,005
Other additions	-	6	-	-	829	835
Total Additions	9,922	(759)	178	6,234	20,172	1,285,676
DEDUCTIONS						
Pension benefits	9,514	6,540	545	9,866	-	2,502,419
Pension refunds	-	-	-	9	-	208,482
Transfers to other pension plans	-	-	-	-	-	330,005
Administrative expenses	-	-	-	-	-	3,797
Distributions to participants	-	-	-	-	135,876	135,876
Total Deductions	9,514	6,540	545	9,875	135,876	3,180,579
Net Increase (Decrease)	408	(7,299)	(367)	(3,641)	(115,704)	(1,894,903)
Net Assets - Beginning	545	20,331	4,000	170,016	2,549,898	69,210,007
Net Assets - Ending	$ 953	$ 13,032	$ 3,633	$ 166,375	$ 2,434,194	$ 67,315,104

Note 12
Other Postemployment Benefits

Plan Description and Funding Policy

In addition to pension benefits as described in Note 11, the state, through the Health Care Authority (HCA), administers an agent multiple-employer other postemployment benefit plan (OPEB). Per RCW 41.05.065, the Public Employees Benefits Board (PEBB) created within the Health Care Authority, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life and long-term disability.

Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), 52 of the state's K-12 schools and educational service districts (ESDs) and 200 political subdivisions. Additionally, the PEBB plan is available to the retirees of the remaining 249 K-12 schools and ESDs. As of June 2008, membership in the PEBB plan consisted of the following:

	Active Employees	Retirees[1]	Total
State	111,681	24,963	136,644
K-12 schools and ESDs[2]	2,132	26,013	28,145
Political subdivisions	11,393	900	12,293
Total	125,206	51,876	177,082

[1]Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
[2]In Fiscal Year 2008, there were 100,208 full-time equivalent active employees in the 249 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For Fiscal Year 2008, the estimated monthly cost for PEBB benefits for active employees (average across all plans and tiers) is as follows:

Required Premium[3]	
Medical	$694
Dental	71
Life	5
Long-term disability	2
Total	$772
Employer contribution	$697
Employee contribution	75
Total	$772

[3]Per 2008 Collective Bargaining Model 4.0.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong. Retirees' access to PEBB plans depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: PERS, PSERS, TRS, SERS, WSPRS, and Higher Education.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's Non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the Non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other Non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In Calendar Year 2007, the average weighted implicit subsidy was valued at $250 per member per month, and in Calendar Year 2008, the average weighted implicit subsidy is projected to be $253 per member per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the Health Care Authority administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. In Calendar Year 2007, the explicit subsidy was $150 per member per month, and in Calendar Year 2008, the explicit subsidy is $164 per member per month.

Retirees participating in the PEBB life insurance program received an explicit subsidy of $5 per member per month in Calendar Year 2007. The explicit subsidy is also $5 per member per month in Calendar Year 2008.

Administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical and life insurance benefits.

Contributions are set each biennium as part of the budget process. In Fiscal Year 2008, the cost of the subsidies was approximately 6.8 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis.

Each participating employer in the plan is required to disclose additional information with regard to funding policy, the employer's annual OPEB costs and contributions made, the funded status and funding progress of the employers individual plan and actuarial methods and assumptions used.

The PEBB OPEB plan is accounted for as an agency fund on an accrual basis. The plan has no investments or other assets. The PEBB OPEB plan does not issue a publicly available financial report.

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to: http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm.

Annual OPEB Cost and Net OPEB Obligation

The state's (general government agencies and higher education institutions) annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the state as the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following tables show the components of the state's annual OPEB cost for Fiscal Year 2008, the amount actually contributed to the plan, and changes in the state's net OPEB obligation (NOO) (expressed in thousands):

Annual required contribution	$313,970
Interest on NOO	-
Amortization of NOO	-
Annual OPEB cost	$313,970

NOO beginning of year	$ -
Annual OPEB cost	313,970
Contributions made	(68,115)
NOO end of year	$245,855

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for Fiscal Year 2008 was as follows (expressed in thousands):

Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
$313,970	21.69%	$245,855

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2008, was as follows (expressed in thousands):

Actuarial accrued liability (AAL)	$3,799,530
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$3,799,530

Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	$5,427,219
UAAL as a percentage of covered payroll	70.01%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant methods and assumptions were as follows:

Actuarial valuation date	January 1, 2007
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years
Asset valuation method	n/a - no assets
Actuarial assumptions:	
Investment rate of return	4.5%
Projected salary increases	4.5%
Health care inflation rate	11% initial rate, 5% ultimate rate in 2015
Inflation rate	3.5%

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents the results of the OPEB valuation for the fiscal year ending June 30, 2008. Looking forward, the schedule will provide additional multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 13
Commitments and Contingencies

A. CONSTRUCTION AND OTHER COMMITMENTS

Outstanding commitments related to state infrastructure and facility construction, improvement, and/or renovation totaled $3.3 billion at June 30, 2008.

B. SUMMARY OF SIGNIFICANT LITIGATION

Pending Litigation

The state and its agencies are parties to numerous routine legal proceedings that normally occur in governmental operations. At any given point, there may be numerous lawsuits involving the implementation of specific state programs that could significantly impact expenditures and potentially have future budgetary impact.

The state is the defendant in a number of cases seeking damages in excess of $60 million involving claims of inadequate funding for care of the disabled and elderly. The state is also defending a number of cases alleging inadequacies and inequities in K-12 funding. Adverse rulings in these cases could result in significant future costs.

The Department of Revenue routinely has claims for refunds in various stages of administrative and legal review. Claims for refunds are approximately $117 million.

The Washington State Department of Transportation (WSDOT) is a defendant in a number of lawsuits related to environmental clean-up and habitat restoration/enhancement associated with highway construction projects and storm water discharge from state highways. While estimates are not available for all lawsuits, claims for damages exceed $35 million. If the efforts of the plaintiffs are successful, the financial impact could be significant and would need to be addressed in future budgets. The WSDOT also faces a lawsuit related to the state's procurement of four new ferry boats.

The state is the defendant in numerous lawsuits by employees accusing the state of various infractions of law or contract. These suits claim back pay and damages in excess of $15 million. The state is also defending complaints by the United States Department of Labor claiming the state violated the Fair Labor Standards Act. Total monetary damages sought in these actions are approximately $65 million. Additionally, the state is being sued as a result of the recent legislative repeal of the gain sharing provision associated with select state pension plans. No estimate of damage is currently available.

The state is contesting these lawsuits and the outcomes are uncertain at this time.

Tobacco Settlement

In November 1998, Washington joined 45 other states in a Master Settlement Agreement (MSA) with the nation's largest tobacco manufacturers to provide restitution for monies spent under health care programs for the treatment of smoking-related illnesses. Washington's share of the settlement is expected to be approximately $138 million in Fiscal Year 2008 and is subject to various offsets, reductions, and adjustments. Beginning in 2008, Washington received the first of ten "strategic contribution payments" under the MSA. This payment, which is subject to the same offsets, reductions, and adjustments as are applicable to the base payment, is estimated to be approximately $48-$49 million.

In 2006, 2007, and 2008, determinations were made under a process established by the MSA that disadvantages experienced as a result of participating in the MSA were a significant factor contributing to the market share loss by manufacturers. These determinations related to sales data for the years 2003, 2004, and 2005. Washington faces a potential "NPM adjustment" of between $0 and $130 million for the year 2003, $0 and $137 million for the year 2004, and $0 and $131 million for the year 2005.

Washington and 37 other states each filed court actions seeking a declaration that they had diligently enforced their escrow statutes. In the Consent Decree, the King County Superior Court retained jurisdiction to enforce and interpret the MSA as to Washington. The participating manufacturers oppose having the diligent enforcement issue decided by numerous state courts. They believe the issue is governed by an arbitration clause in the MSA that they claim requires a panel of arbitrators to decide, in a single national proceeding, whether individual states diligently enforced their own statutes.

The King County Superior Court heard Washington's motion and, in late September 2006, entered an order compelling arbitration and dismissing the state's action. Washington's appeal was dismissed and the trial court's order compelling arbitration is now final. The vast majority of states have final orders compelling them to arbitrate. It appears likely that a substantial number of disputes will be resolved through a multistate arbitration. It is uncertain when such arbitration would commence, but a decision on the merits of the disputes is not likely until 2010.

C. FEDERAL ASSISTANCE

The state has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the state. The state does estimate and recognize a claims and judgments liability for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the state's overall financial condition.

D. ARBITRAGE REBATE

Rebatable arbitrage is defined by the Internal Revenue Service Code Section 148 as earnings on investments purchased from the gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue, and therefore limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

E. OTHER COMMITMENTS AND CONTINGENCIES

School Bond Guarantee Program

Washington voters passed a constitutional amendment in November 1999, creating the Washington State School Bond Guarantee Program. The program's purpose is to provide savings to state taxpayers by pledging the full faith and credit of the state of Washington to the full and timely payment of voter-approved school district general obligation bonds in the event a school district is unable to make a payment. The issuing school district remains responsible for the repayment of the bonds, including any payment the state makes under the guarantee.

The State Treasurer introduced the School Bond Guarantee Program in March 2000. At the end of Fiscal Year 2008 the state had guaranteed 199 school districts' voter-approved general obligation debt with a total outstanding principal of $7.3 billion. The state estimates that school bond guarantee liability, if any, will be immaterial to its overall financial condition.

Local Option Capital Asset Lending Program (LOCAL)

On September 1, 1998, the state lease-purchase program was extended to local governments seeking low cost financing of essential equipment. The program allows

local governments to pool their financing requests together with Washington State agencies in Certificates of Participation (COPs). Refer to Note 7.B for the state's COP disclosure. These COP's do not constitute a debt or pledge of the faith and credit of the state, rather local governments pledge their full faith and credit in a general obligation pledge. In the event that any local government fails to make any payment, the state is obligated to withhold an amount sufficient to make such payment from the local government's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such local government, if otherwise legally permissible.

Upon failure of any local government to make a payment, the state is further obligated, to the extent of legally available appropriated funds to make such payment on behalf of such local government. The local government remains obligated to make all COP payments and reimburse the state for any conditional payments.

As of June 30, 2008, outstanding certificates of participation notes totaled $77.7 million for 185 local governments participating in LOCAL. The state estimates that LOCAL program liability, if any, will be immaterial to its overall financial condition.

Note 14
Subsequent Events

A. BOND ISSUES

In July 2008, the state issued $492.5 million in Various Purpose General Obligation Bonds, Series 2009A, $260 million in Motor Vehicle Fuel Tax General Obligation Bonds, Series 2009B, and $70.6 million in General Obligation Taxable Bonds, Series 2009T.

B. CERTIFICATES OF PARTICIPATION

In September 2008, the state issued $11.8 million in Certificates of Participation for various state and local government equipment purchases, Series 2008D.

In December 2008, the state plans to issue $14 million in Certificates of Participation for various state and local government equipment purchases, Series 2008E.

C. FINANCIAL MARKET LOSSES

Subsequent to June 30, 2008, the Washington State Investment Board (WSIB), which manages the state's pension trust, workers' compensation, and certain permanent fund investments, realized investment losses upon the failures of Lehman Brothers Holdings, Inc., Washington Mutual, Inc., and American International Group, Inc. Overall losses of $225 million were realized, allocated 79 percent, 18 percent and 3 percent to pension trust, workers' compensation and permanent funds, respectively. These losses are not reflected in the accompanying financial statements since the losses arose subsequent to June 30, 2008.

Also, subsequent to June 30, 2008, the state sustained other unrealized losses on investments due to turmoil within the capital markets. These losses are deemed temporary in nature and, given that they occurred after June 30, 2008, are not reflected in the accompanying financial statements.

RSI
Required Supplementary Information

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BUDGETARY INFORMATION
Budgetary Comparison Schedule

Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	General Fund			
	Original Budget 2007-09 Biennium	Final Budget 2007-09 Biennium	Actual 2007-09 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	$ 780,510	$ 780,510	$ 780,510	$ -
RESOURCES				
Taxes	29,144,057	29,058,120	14,276,390	(14,781,730)
Licenses, permits, and fees	181,346	189,991	97,493	(92,498)
Other contracts and grants	288,705	395,920	162,238	(233,682)
Timber sales	6,657	6,697	2,847	(3,850)
Federal grants-in-aid	12,347,165	12,474,335	5,871,839	(6,602,496)
Charges for services	123,032	63,764	56,614	(7,150)
Interest income	143,544	154,270	113,034	(41,236)
Miscellaneous revenue	126,270	100,384	69,358	(31,026)
Escheated property	-	-	89,727	89,727
Transfers from other funds	512,072	417,434	72,007	(345,427)
Total Resources	43,653,358	43,641,425	21,592,057	(22,049,368)
CHARGES TO APPROPRIATIONS				
General government	2,982,113	3,104,985	1,637,339	1,467,646
Human services	21,186,368	21,321,458	10,276,682	11,044,776
Natural resources and recreation	704,224	714,456	326,277	388,179
Transportation	86,584	80,967	42,609	38,358
Education	17,229,757	17,301,727	8,387,898	8,913,829
Capital outlays	216,104	217,599	41,676	175,923
Transfers to other funds	571,900	375,793	71,421	304,372
Total Charges To Appropriations	42,977,050	43,116,985	20,783,902	22,333,083
Excess Available For Appropriation Over (Under) Charges To Appropriations	676,308	524,440	808,155	283,715
RECONCILING ITEMS				
Changes in reserves (net)	-	-	(10,076)	(10,076)
Entity adjustments (net)	-	-	(8,577)	(8,577)
Total Reconciling Items	-	-	(18,653)	(18,653)
Budgetary fund balance, June 30	$ 676,308	$ 524,440	$ 789,502	$ 265,062

BUDGETARY INFORMATION

Budgetary Comparison Schedule – Budget to GAAP Reconciliation

Budgetary Comparison Schedule - Budget to GAAP Reconciliation
General Fund
For the Fiscal Year Ended June 30, 2008
(expressed in thousands)

	General Fund
SOURCES / INFLOWS OF RESOURCES	
Actual amounts (budgetary basis) "Total Resources" from the Budgetary Comparison Schedule	$ 21,592,057
Differences - budget to GAAP:	
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:	
Transfers from other funds	(72,007)
Budgetary fund balance at the beginning of the biennium	(780,510)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:	
Noncash commodities and electronic food stamp benefits	643,995
Unanticipated receipts	8,823
Noncash revenues	23,706
Revenues collected for other governments	32,486
Total Revenues (GAAP Basis) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 21,448,550
USES / OUTFLOWS OF RESOURCES	
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule.	$ 20,783,902
Differences - budget to GAAP:	
Budgeted expenditure transfers are recorded as expenditures in the budget statement but are recorded as other financing sources (uses) for financial reporting purposes.	(1,145,328)
The following items are outflows of budgetary resources but are not expenditures for financial reporting purposes.	
Transfers to other funds	(71,421)
Loan disbursements	3,440
The following items are not outflows of budgetary resources but are recorded as current expenditures for financial reporting purposes.	
Noncash commodities and electronic food stamp benefits	676,278
Expenditures related to unanticipated receipts	8,823
Capital lease acquisitions	12,110
Distributions to other governments	32,486
Total Expenditures (GAAP Basis) as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 20,300,290

BUDGETARY INFORMATION

Notes to RSI

Required Supplementary Information

GENERAL BUDGETARY POLICIES AND PROCEDURES

The Governor is required to submit a budget to the state Legislature no later than December 20 of the year preceding odd-numbered year sessions of the Legislature. The budget is a proposal for expenditures in the ensuing biennial period based upon anticipated revenues from the sources and rates existing by law at the time of submission of the budget. The Governor may additionally submit, as an appendix to the budget, a proposal for expenditures in the ensuing biennium from revenue sources derived from proposed changes in existing statutes.

The appropriated budget and any necessary supplemental budgets are legally required to be adopted through the passage of appropriation bills by the Legislature and approved by the Governor. 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 within 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. The accompanying budgetary schedules are not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial schedules extremely cumbersome. Section 2400.121 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases. For the state of Washington, a separate report has been prepared for the 2007-09 Biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at agency and appropriation level are presented in Report CAF1054 for governmental funds. A copy of this report is available at the Office of Financial Management, 6639 Capitol Boulevard, PO Box 43113, Olympia, Washington 98504-3113.

Legislative appropriations are strict legal limits on expenditures/expenses, and over-expenditures are prohibited. All appropriated and certain nonappropriated funds are further controlled by the executive branch through the allotment process. This process allocates the expenditure/expense plan into monthly allotments by program, source of funds, and object of expenditure. According to statute RCW 43.88.110(2), except under limited circumstances, the original allotments are approved by the Governor and may be revised on a quarterly basis and must be accompanied by an explanation of the reasons for significant changes. Because allotments are not the strict legal limit on expenditures/expenses, the budgetary schedules presented as required supplementary information (RSI) are shown on an appropriation versus actual comparison rather than an allotment versus actual comparison.

Proprietary funds typically earn revenues and incur expenses (i.e., depreciation or budgeted asset purchases) not covered by the allotment process. Budget estimates are generally made outside the allotment process according to prepared business plans. These proprietary fund business plan estimates are adjusted only at the beginning of each fiscal year.

Additional fiscal control is exercised through various means. OFM is authorized to make expenditure/expense allotments based on availability of unanticipated receipts, mainly federal government grant increases made during a fiscal year. State law does not preclude the over-expenditure of allotments, although RCW 43.88.110(3) requires that the Legislature be provided an explanation of major variances.

Operating encumbrances lapse at the end of the applicable appropriation. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding against continuing appropriations at fiscal year end are reported as reservations of fund balance.

Budgetary Reporting vs. GAAP Reporting

Governmental funds are budgeted materially in conformance with GAAP. However, the presentation in the accompanying budgetary schedules is different in certain respects from the corresponding Statements of Revenues, Expenditures, and Changes in Fund Balance (governmental operating statement). In the accompanying budgetary schedules, budget and actual expenditures are reported only for appropriated activities. Expenditures are classified based on whether the appropriation is from the operating or capital budget. Expenditures funded by operating budget appropriations are reported as current expenditures classified by the function of the agency receiving the appropriation. Expenditures funded by capital budget appropriations are reported as capital outlays.

However, in the governmental operating statements, all governmental funds are included and expenditures are classified according to what was actually purchased. Capital outlays are fixed asset acquisitions such as land, buildings, and equipment. Debt service expenditures are principal and interest payments. Current expenditures are all other governmental fund expenditures classified based on the function of the agency making the expenditures.

Additionally, certain governmental activities are excluded from the budgetary schedules because they are not appropriated. These activities include activities designated as nonappropriated by the Legislature, such as the Higher Education Special Revenue Fund, Higher Education Endowment Fund, Tobacco Settlement Securitization Bond Debt Service Fund, federal surplus food commodities, electronic food stamp benefits, capital leases, note proceeds, and resources collected and distributed to other governments.

Further, certain expenditures are appropriated as operating transfers. These transfers are reported as operating transfers on the budgetary schedules and as expenditures on the governmental operating statements. The factors contributing to the differences between the Budgetary Comparison Schedule and the Statement of Revenues, Expenditures, and Changes in Fund Balance are noted in the previous Budget to GAAP reconciliation.

Budgetary Fund Balance includes the following as reported on the Governmental Funds Balance Sheet: Unreserved, undesignated fund balance; and Reserved for encumbrances.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Public Employees' Retirement System - Plan 1
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002
Actuarial value of plan assets	$ 9,715	$ 9,591	$ 9,707	$ 9,928	$ 10,227	$ 10,757
Actuarial accrued liability	13,740	13,129	13,704	12,855	12,692	12,560
Unfunded actuarial liability	4,025	3,538	3,997	2,927	2,465	1,803
Percentage funded	71%	73%	71%	77%	81%	86%
Covered payroll	676	725	786	863	945	1,023
Unfunded actuarial liability as a percentage of covered payroll	595%	488%	509%	339%	261%	176%

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Public Employees' Retirement System - Plan 2/3
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	N/A	N/A	N/A	N/A	N/A
Actuarial value of plan assets	$ 14,888	N/A	N/A	N/A	N/A	N/A
Actuarial accrued liability	14,661	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(227)	N/A	N/A	N/A	N/A	N/A
Percentage funded	102%	N/A	N/A	N/A	N/A	N/A
Covered payroll	7,157	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

PERS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Teachers' Retirement System - Plan 1
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002
Actuarial value of plan assets	$ 8,302	$ 8,275	$ 8,450	$ 8,728	$ 9,086	$ 9,365
Actuarial accrued liability	10,826	10,359	10,894	10,401	10,325	10,235
Unfunded actuarial liability	2,524	2,084	2,444	1,673	1,239	870
Percentage funded	77%	80%	78%	84%	88%	91%
Covered payroll	426	478	546	616	692	741
Unfunded actuarial liability as a percentage of covered payroll	592%	436%	448%	272%	179%	117%

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Teachers' Retirement System - Plan 2/3
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	N/A	N/A	N/A	N/A	N/A
Actuarial value of plan assets	$ 5,277	N/A	N/A	N/A	N/A	N/A
Actuarial accrued liability	4,682	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(595)	N/A	N/A	N/A	N/A	N/A
Percentage funded	113%	N/A	N/A	N/A	N/A	N/A
Covered payroll	3,318	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

TRS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
School Employees' Retirement System - Plan 2/3
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	N/A	N/A	N/A	N/A	N/A
Actuarial value of plan assets	$ 2,133	N/A	N/A	N/A	N/A	N/A
Actuarial accrued liability	1,998	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(135)	N/A	N/A	N/A	N/A	N/A
Percentage funded	107%	N/A	N/A	N/A	N/A	N/A
Covered payroll	1,283	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

SERS Plan 2/3 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002
Actuarial value of plan assets	$ 5,298	$ 5,018	$ 4,800	$ 4,666	$ 4,803	$ 5,095
Actuarial accrued liability	4,340	4,309	4,243	4,266	4,275	4,259
Unfunded (assets in excess of) actuarial liability	(958)	(709)	(557)	(400)	(528)	(836)
Percentage funded	122%	116%	113%	109%	112%	120%
Covered payroll	43	48	56	64	71	80
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 2
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	N/A	N/A	N/A	N/A	N/A
Actuarial value of plan assets	$ 4,360	N/A	N/A	N/A	N/A	N/A
Actuarial accrued liability	3,626	N/A	N/A	N/A	N/A	N/A
Unfunded (assets in excess of) actuarial liability	(734)	N/A	N/A	N/A	N/A	N/A
Percentage funded	120%	N/A	N/A	N/A	N/A	N/A
Covered payroll	1,234	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

LEOFF Plan 2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Washington State Patrol Retirement System - Plan 1/2
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	N/A	N/A	N/A	N/A	N/A
Actuarial value of plan assets	$ 800	N/A	N/A	N/A	N/A	N/A
Actuarial accrued liability	702	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(98)	N/A	N/A	N/A	N/A	N/A
Percentage funded	114%	N/A	N/A	N/A	N/A	N/A
Covered payroll	72	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

WSPRS Plan 1/2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

continued

Schedule of Funding Progress
Public Safety Employees' Retirement System - Plan 2
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	N/A	N/A	N/A	N/A	N/A
Actuarial value of plan assets	$ 14	N/A	N/A	N/A	N/A	N/A
Actuarial accrued liability	12	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability	(2)	N/A	N/A	N/A	N/A	N/A
Percentage funded	117%	N/A	N/A	N/A	N/A	N/A
Covered payroll	134	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	0%	N/A	N/A	N/A	N/A	N/A

PSERS Plan 2 uses the aggregate actuarial cost method. Effective for reporting year 2007, this Schedule of Funding Progress is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress information of this plan as required by GASB Statement No. 50.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Judicial Retirement System
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002
Actuarial value of plan assets	$ 1	$ 0.3	$ 2	$ 4	$ 6	$ 8
Actuarial accrued liability	85	88	89	89	91	92
Unfunded actuarial liability	84	88	87	85	85	84
Percentage funded	1%	0%	2%	4%	7%	9%
Covered payroll	1.3	1.4	1.7	2.4	2.6	3
Unfunded actuarial liability as a percentage of covered payroll	6462%	6286%	5118%	3542%	3269%	2800%

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION
Schedules of Funding Progress

concluded

Schedule of Funding Progress
Judges' Retirement Fund
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	9/30/2006	9/30/2005	9/30/2004	9/30/2003	9/30/2002
Actuarial value of plan assets	$ 4.0	$ 4.1	$ 4.2	$ 4.4	$ 4.5	$ 4.7
Actuarial accrued liability	3.9	4.0	4.5	4.7	5.2	5.5
Unfunded (assets in excess of) actuarial liability	(0.1)	(0.1)	0.3	0.3	0.7	0.8
Percentage funded	103%	103%	93%	94%	87%	85%
Covered payroll	-	-	-	-	-	0.1
Unfunded actuarial liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

Schedule of Funding Progress
Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund
Valuation Years 2007 through 2002
(dollars in millions)

	2007	2006	2005	2004	2003	2002
Actuarial valuation date	6/30/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003	12/31/2002
Actuarial value of plan assets	$ 151	$ 140	$ 127	$ 120	$ 120	$ 124
Actuarial accrued liability	136	142	140	115	112	110
Unfunded (assets in excess of) actuarial liability	(15)	2	13	(5)	(8)	(14)
Percentage funded	111%	99%	91%	104%	107%	113%
Covered payroll	N/A	N/A	N/A	N/A	N/A	N/A
Unfunded actuarial liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A

* Pension plan liability only - excludes relief benefits.

**Covered Payroll is not presented because it is not applicable since this is a volunteer organization.

N/A indicates data not available.

Source: Washington State Office of the State Actuary. Starting with the 2007 report the valuation date changed to June 30.

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (cont'd)

Schedules of Contributions from Employers and Other Contributing Entities
For the Fiscal Years Ended June 30, 2008 through 2003
(expressed in millions)

	2008	2007	2006	2005	2004	2003
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 1						
Employers' annual required contribution	$ 453.1	$ 397.3	$ 438.5	$ 340.3	$ 295.1	$ 228.9
Employers' actual contribution	221.8	118.7	29.6	22.4	22.8	56.6
Percentage contributed	49%	30%	7%	7%	8%	25%
PUBLIC EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 363.3	$ 331.3	$ 307.6	$ 227.7	$ 192.6	$ 141.7
Employers' actual contribution	318.7	242.5	149.6	74.7	69.4	38.2
Percentage contributed	88%	73%	49%	33%	36%	27%
TEACHERS' RETIREMENT SYSTEM - PLAN 1						
Employers' annual required contribution	$ 294.7	$ 249.8	$ 287.5	$ 224.3	$ 185.7	$ 153.4
Employers' actual contribution	113.1	60.5	15.1	8.8	11.4	20.4
Percentage contributed	38%	24%	5%	4%	6%	13%
TEACHERS' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 208.9	$ 167.7	$ 166.4	$ 117.4	$ 96.2	$ 79.5
Employers' actual contribution	109.5	102.2	75.4	33.8	29.9	18.2
Percentage contributed	52%	61%	45%	29%	31%	23%
SCHOOL EMPLOYEES' RETIREMENT SYSTEM - PLAN 2/3						
Employers' annual required contribution	$ 75.8	$ 71.5	$ 81.4	$ 64.0	$ 52.3	$ 44.2
Employers' actual contribution	52.1	45.9	30.4	10.2	9.1	6.2
Percentage contributed	69%	64%	37%	16%	17%	14%

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (cont'd)

Schedules of Contributions from Employers and Other Contributing Entities
For the Fiscal Years Ended June 30, 2008 through 2003
(expressed in millions)

	2008	2007	2006	2005	2004	2003
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM - PLAN 1						
Employers' annual required contribution	$ -	$ 0.1	$ -	$ -	$ -	$ -
Employers' actual contribution	-	0.1	0.1	-	-	0.1
Percentage contributed	N/A	100%	N/A	N/A	N/A	N/A
State annual required contribution	-	-	-	-	-	-
State actual contribution	-	-	-	-	-	-
Percentage contributed	N/A	N/A	N/A	N/A	N/A	N/A
LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM - PLAN 2						
Employers' annual required contribution*	$ 61.3	$ 56.9	$ 60.8	$ 48.5	$ 41.5	$ 34.1
Employers' actual contribution	73.4	58.2	48.5	32.8	30.8	25.6
Percentage contributed	120%	102%	80%	68%	74%	75%
State annual required contribution*	40.8	38.0	40.5	32.3	27.7	22.7
State actual contribution	45.9	37.9	31.7	21.3	20.2	16.4
Percentage contributed	N/A	100%	78%	66%	73%	72%
WASHINGTON STATE PATROL RETIREMENT SYSTEM						
Employers' annual required contribution	$ 6.8	$ 5.3	$ 6.1	$ 3.4	$ 2.6	$ -
Employers' actual contribution	6.1	3.3	3.1	-	-	-
Percentage contributed	90%	62%	51%	0%	0%	N/A

N/A indicates data not available.

*The Annual Required Contribution (ARC) for the LEOFF Plan 2 presented is the Office of the State Actuary's recommended figure; the LEOFF Plan 2 board has proposed a higher ARC of $113.5 Million.

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

Source: Washington State Office of the State Actuary

PENSION PLAN INFORMATION

Schedules of Contributions from Employers and Other Contributing Entities (concl'd)

Schedules of Contributions from Employers and Other Contributing Entities
For the Fiscal Years Ended June 30, 2008 through 2003
(expressed in millions)

	2008	2007	2006	2005	2004	2003
PUBLIC SAFETY EMPLOYEES' RETIREMENT PLAN SYSTEM - PLAN 2						
Employers' annual required contribution	$ 12.4	$ 7.1	$ -	$ -	$ -	$ -
Employers' actual contribution	11.7	6.6	-	-	-	-
Percentage contributed	94%	93%	N/A	N/A	N/A	N/A
JUDICIAL RETIREMENT SYSTEM						
Employers' annual required contribution	$ 26.6	$ 37.3	$ 27.7	$ 21.7	$ 18.5	$ 16.2
Employers' actual contribution	9.6	9.6	6.7	6.2	6.2	6.2
Percentage contributed	36%	26%	24%	29%	34%	38%
JUDGES' RETIREMENT FUND						
Employers' annual required contribution	$ -	$ -	$ 0.1	$ 0.1	$ 0.2	$ 0.1
Employers' actual contribution	-	0.3	0.3	0.5	0.5	0.3
Percentage contributed	N/A	N/A	300%	500%	250%	300%
VOLUNTEER FIRE FIGHTERS' AND RESERVE OFFICERS' RELIEF AND PENSION FUND						
Employers' annual required contribution	$ 1.0	$ 1.0	$ 1.0	$ 0.7	$ 0.8	$ 0.8
Employers' actual contribution	1.0	1.0	1.0	0.7	0.8	0.8
Percentage contributed	100%	100%	100%	100%	100%	100%
State annual required contribution	0.9	2.0	3.6	1.8	1.5	0.7
State actual contribution	5.0	6.0	4.6	4.4	4.4	3.3
Percentage contributed	556%	300%	128%	244%	293%	471%

N/A indicates data not available.

The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from that used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation), and different actuarial cost methods. For these reasons the actual contributions will not match the Annual Required Contributions.

Source: Washington State Office of the State Actuary

OTHER POSTEMPLOYMENT BENEFITS INFORMATION
Schedule of Funding Progress

Schedule of Funding Progress
Other Postemployment Benefits
Valuation Years 2007 through 2005
(dollars in millions)

	2007	2006	2005
Actuarial valuation date	1/1/2007	N/A	N/A
Actuarial value of plan assets	$ -	N/A	N/A
Actuarial accrued liability (AAL)*	3,800	N/A	N/A
Unfunded actuarial accrued liability (UAAL)	3,800	N/A	N/A
Funded ratio	0%	N/A	N/A
Covered payroll	5,427	N/A	N/A
UAAL as a percentage of covered payroll	70.01%	N/A	N/A

* Based on projected unit credit actuarial cost method.

N/A indicates data not available.

Source: Washington State Office of the State Actuary

INFORMATION ABOUT INFRASTRUCTURE ASSETS REPORTED USING THE MODIFIED APPROACH

Condition Assessment

The state's highway system is divided into three main categories: pavement, bridges and rest areas. Condition information about each as well as the state's emergency airfields follows.

Pavement Condition

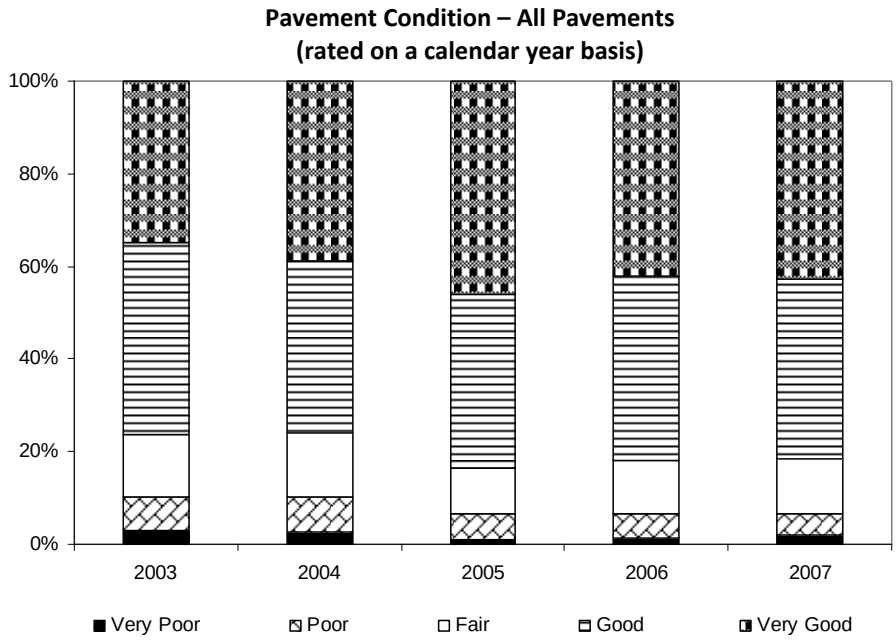
The Washington State Department of Transportation (WSDOT) owns and maintains 20,251 lane miles of highway, including ramps, collectors and special use lanes. Special use lanes include High Occupancy Vehicle (HOV), climbing, chain-up, holding, slow vehicle turnout, two-way turn, weaving/speed change, bicycle, transit, truck climbing shoulder, turn and acceleration lanes. Special use and ramp/collector lane miles make up 1,816 of the total lane miles.

WSDOT has been rating pavement condition since 1969. Pavement rated in good condition is smooth and has few defects. Pavement in poor condition is characterized by cracking, patching, roughness and rutting. Pavement condition is rated using three factors: Pavement Structural Condition (PSC), International Roughness Index (IRI), and Rutting.

In 1993 the Legislature required WSDOT to rehabilitate pavements at the Lowest Life Cycle Cost (LLCC), which has been determined to occur at a PSC range between 40 and 60, or when triggers for roughness or rutting are met. The trend over the last five years has shown that the percent of pavements in poor or very poor condition was fairly stable at 7 percent - 10 percent, with an improvement to 6 percent - 7 percent in 2005 through 2007. WSDOT uses LLCC analysis to manage its pavement preservation program. The principles behind LLCC are basic – if rehabilitation is done too early, pavement life is wasted; if rehabilitation is done too late, very costly repair work may be required, especially if the underlying structure is compromised. WSDOT continually looks for ways to best strike the balance between these two basic principles.

While the goal for pavements is zero miles in 'poor' condition, marginally good pavements may deteriorate into poor condition during the lag time between assessment and actual rehabilitation. As a result, a small percentage of marginally good pavements will move into the 'poor' condition category for any given assessment period.

WSDOT manages state highways targeting the LLCC per the Pavement Management System due date. While the department has a long-term goal of no pavements in poor condition (a pavement condition index less than 40, on a 100 point scale), the current policy is to maintain 90 percent of all highway pavement types at a pavement condition index of 40 or better with no more than 10 percent of its highways at a pavement condition below 40. The most recent assessment found that state highways were within the prescribed parameters with only 7 percent of all pavement types with a pavement condition index below 40.



WSDOT uses the following scale for Pavement Structural Condition (PSC):

Category	PSC Range	Description
Very Good	80 – 100	Little or no distress. Example: Flexible pavement with 5 percent of wheel track length having "hairline" severity alligator cracking will have a PSC of 80.
Good	60 – 80	Early stage deterioration. Example: Flexible pavement with 15 percent of wheel track length having "hairline" alligator cracking will have a PSC of 70.
Fair	40 – 60`	This is the threshold value for rehabilitation. Example: Flexible pavement with 25 percent of wheel track length having "hairline" alligator cracking will have a PSC of 50.
Poor	20 – 40	Structural deterioration. Example: Flexible pavement with 25 percent of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 30.
Very Poor	0 – 20	Advanced structural deterioration. Example: Flexible pavement with 40 percent of wheel track length having "medium (spalled)" severity alligator cracking will have a PSC of 10. May require extensive repair and thicker overlays.

The PSC is a measure based on distresses such as cracking and patching, which are related to the pavement's ability to carry loads. Pavements develop structural deficiencies due to truck traffic and cold weather. WSDOT attempts to program rehabilitation for pavement segments when they are projected to reach a PSC of 50. A PSC of 50 can occur due to various amounts and severity of distress. For rigid pavements (such as Portland cement concrete), a PSC of 50 represents 50 percent of the concrete slabs exhibiting joint faulting with a severity of 1/8 to 1/4 inch (faulting is the elevation difference at slab joints and results in a rough ride – particularly in large trucks). Further, a PSC of 50 can also be obtained if 25 percent of concrete slabs exhibit two to three cracks per panel.

The International Roughness Index (IRI) uses a scale in inches per mile. WSDOT considers pavements with a ride performance measure of greater than 220 inches per mile to be in poor condition. For example, new asphalt overlays typically have ride values below 75 inches per mile, which is very smooth.

Rutting is measured in millimeters: a pavement with more than 12 millimeters of rutting is considered in poor condition. The three indices (PSC, IRI, and Rutting) are combined to rate a section of pavement, which is assigned the lowest category of any of the three ratings.

The following table shows the combined explanatory categories and the ratings for each index.

Category	PSC	IRI	Rutting
Very Good	100 – 80	< 95	< 4
Good	80 – 60	95 – 170	4 – 8
Fair	60 – 40	170 – 220	8 – 12
Poor	40 – 20	220 – 320	12 – 16
Very Poor	0 – 20	> 320	> 16

Since 1999, WSDOT has used an automated pavement distress survey procedure. In the automated survey, high-resolution video images are collected at highway speed and these video images are then rated on special workstations at 3-6 mph speed. This change has also resulted in a more detailed classification and recording of various distresses that are rated.

Pavement condition surveys are generally conducted in the fall of each year and analyzed during the winter and spring, with the previous year's results available in July each year. Years indicated are when the physical assessment was done.

In 2007, WSDOT rated pavement condition on 17,323 of the 20,251 lane miles of highway. The following chart shows recent pavement condition ratings for the State Highway System, using the combination of the three indices described on the preceding page.

Percentage of Pavement in Fair or Better Condition					
	2007*	2006*	2005*	2004*	2003*
Statewide - Chip seals	91%	91%	91%	86%	86%
Statewide - Asphalt	94%	94%	95%	92%	91%
Statewide - Concrete	93%	93%	91%	85%	92%
Statewide - All pavements	93%	94%	93%	90%	90%

Percentage of Pavement in Poor or Very Poor Condition					
	2007*	2006*	2005*	2004*	2003*
Statewide - Chip seals	9%	9%	9%	14%	14%
Statewide - Asphalt	6%	6%	5%	8%	9%
Statewide - Concrete	7%	7%	9%	15%	8%
Statewide - All pavements	7%	6%	7%	10%	10%

*Calendar year data. Assessments are typically made in the summer and fall of each year, and processed during the winter and spring, with final results released in July. Years indicated are when the physical assessment was done in the summer and fall.

Note: The All Pavements percentages are calculated from total database averages, not a statistical average of the three pavement type percentages. IRI or rutting is not used for sections identified as under construction in rating distress.

More information about pavement management at the Department of Transportation may be obtained at: http://www.wsdot.wa.gov/biz/mats/pavement/.

Bridge Condition

During Fiscal Year 2008 there were 3,140 state-owned vehicular structures over 20 feet in length with a total area of 45,691,819 square feet. In addition to bridges, the 3,140 structures include 91 culverts and 54 ferry terminal structures. (While ferry terminals are included in a depreciable asset category, they are included here with bridge condition information since they are evaluated by the WSDOT Bridge Office on a periodic basis.) The fiscal year increase of 23 ferry terminal structures reflects a change in inventory detail which separated some structures that were previously reported as one structure. There were 7 bridge structures added in Fiscal Year 2008. All bridges are inspected every two years. Divers inspect underwater bridge components at least once every five years in accordance with Federal Highway Administration requirements. Special emphasis is given to the ongoing inspection and maintenance of major bridges representing a significant public investment due to size, complexity or strategic location.

Information related to public bridges is maintained in the Washington State Bridge Inventory System (WSBIS). This system is used to develop preservation strategies and comprehensive recommendations for maintenance and construction, and for reporting to the Federal Highway Administration (FHWA).

WSDOT's policy is to maintain 95 percent of its bridges at a structural condition of at least fair, meaning that all primary structural elements are sound. The most recent assessment found that state-owned bridges were within the prescribed parameters with 97 percent having a condition rating of fair or better and only 3 percent of bridges having a condition rating of poor. Bridges rated as poor may have structural deficiencies that restrict the weight and type of traffic allowed. No bridges that are currently rated as poor are unsafe for public travel. Any bridges determined to be unsafe are closed to traffic. WSDOT had one closed bridge at June 30, 2008 where US97 crosses the Columbia River in south central Washington. The bridge deck is undergoing replacement.

WSDOT's Bridge Seismic Retrofit Program prioritizes state bridges for seismic retrofit, and performs these retrofits as funding permits. Retrofit priorities are based on seismic risk of a site, structural detail deficiencies, and route importance. The Seismic Retrofit Program includes 922 bridges that have been classified as needing retrofitting. WSDOT has fully or partially retrofitted 370 bridges. Of those, 217 are completely retrofitted, 153 are partially retrofitted. Seismic Analysis has determined that 12 bridges do not require a retrofit. There are 19 bridges currently under contract to be retrofitted.

The following condition rating data is based on the structural sufficiency standards established in the FHWA "Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation's Bridges." This structural rating relates to the evaluation of bridge superstructure, deck, substructure, structural adequacy and waterway adequacy. Three categories of condition were established in relation to the FHWA criteria as follows:

Category	National Bridge Inventory Code	Description
Good	6, 7, or 8	A range from no problems noted to some minor deterioration of structural elements.
Fair	5	All primary structural elements are sound but may have deficiencies such as minor section loss, deterioration, cracking, spalling or scour.
Poor	4 or less	Advanced deficiencies such as section loss, deterioration, cracking, spalling, scour or seriously affected primary structural components.

Note: Bridges rated in poor condition may be restricted for the weight and type of traffic allowed.

Condition rating of WSDOT's bridges:

Percentage of Bridges in Fair or Better Condition					
Bridge Type	**2008**	**2007**	**2006**	**2005**	**2004**
Reinforced concrete (1,289 bridges in FY 2008)	98.0%	98.3%	98.6%	98.6%	98.0%
Prestressed concrete (1,325 bridges in FY2008)	98.9%	99.3%	99.3%	99.5%	99.5%
Steel (356 bridges* in FY 2008)	93.9%	94.7%	94.1%	94.3%	93.5%
Timber (76 bridges in FY 2008)	71.7%	66.3%	68.1%	69.2%	70.0%
Statewide - All bridges (3,046 out of 3,140 bridges in FY 2008)	97.0%	97.4%	97.5%	97.6%	97.4%

Percentage of Bridges in Poor Condition					
Bridge Type	**2008**	**2007**	**2006**	**2005**	**2004**
Reinforced concrete (26 bridges in FY 2008)	2.0%	1.7%	1.4%	1.4%	2.0%
Prestressed concrete (15 bridges in FY 2008)	1.1%	0.7%	0.7%	0.5%	0.5%
Steel (23 bridges* in FY 2008)	6.1%	5.3%	5.9%	5.7%	6.5%
Timber (30 bridges in FY 2008)	28.3%	33.7%	31.9%	30.8%	30.0%
Statewide - All bridges (94 out of 3,140 bridges in FY 2008)	3.0%	2.6%	2.5%	2.4%	2.6%

*The steel bridge ratings for Fiscal Year 2008 include 51 ferry terminal structures rated as fair or better and three ferry terminal structures rated as poor.

Note: Bridges rated as poor may have structural deficiencies that restricted the weight and type of traffic allowed. WSDOT currently has 14 posted bridges and 152 restricted bridges. Posted bridges have signs posted which inform of legal weight limits. Restricted bridges are those where overweight permits will not be issued for travel by overweight vehicles. This is one additional posted bridge in 2008 as compared to 2007. The number of restricted bridges did not change in the last year.

Refer to http://www.wsdot.wa.gov/commercialVehicle/Restrictions/ for more information on overweight restrictions. Any bridges determined to be unsafe are closed to traffic. WSDOT has one closed bridge as of June 30, 2008.

Additional information regarding the Department of Transportation's bridge inspection program may be obtained at: http://www.wsdot.wa.gov/eesc/bridge/index.cfm.

Safety Rest Area Condition

The WSDOT owns, operates, and maintains 46 developed safety rest area (SRA) facilities, an increase of four sites in Fiscal Year 2008. Within these facilities, the department manages the following assets: 92 buildings, 692 acres, 29 on-site public drinking water systems, 36 on-site sewage pre-treatment/treatment systems, and 19 recreational vehicle sanitary disposal facilities.

In 2007, WSDOT performed the third round of Safety Rest Area building and site condition assessments to determine the facility deficiencies. This biennial process, which began in 2003, helps prioritize renovation and replacement projects. Sites and buildings are divided into functional components that are assessed with a numerical rating of 1 to 5 based on guideline criteria (1 meets current standards, 5 is poor).

In addition, a weighting multiplier is applied based on the criticality of the individual component. For instance, a safety deficiency adds a weighting multiplier of ten while a department image deficiency has a weighting multiplier of two. The combined total building and site ratings are used to determine each facility's overall condition, and fall into one of five categories. WSDOT will conduct the next condition assessment in 2009.

WSDOT SRA condition assessment rating parameters are not based on other state or national guidelines for safety rest areas. The model used is based on the capital facility program software already in use, with minor modifications to the rating parameters to better match the unique needs of SRA facilities. The SRA Program goal is to have no more than 5 percent of the facilities rated Poor.

Condition rating of Washington State rest areas:

Category	2007	2005	2003
Percentage of facilities in fair or good condition	95.3%	95.2%	95.2%
Percentage of facilities in poor condition	4.7%	4.8%	4.8%

Category	Description	Number of Safety Rest Areas in Category		
		2007	2005	2003
Good Condition	Facility is new construction and/or meets current standards.	8	11	11
Fair-High Condition	Facility meets current standards and/or is in adequate condition with minimal component deficiencies.	6	2	4
Fair-Mid Condition	Facility is functional, and in adequate condition with minor component deficiencies.	6	9	20
Fair-Low Condition	Facility has multiple system deficiencies.	20	18	6
Poor	Facility is at or beyond its service life, with multiple major deficiencies.	2	2	2
	Total	*42	42	43

*Four sites were not included in the condition assessment process for 2007: Iron Goat, Mader, Price Creek, and Traveler's Rest.

Emergency Air Field Condition

The WSDOT, through its Aviation Division is authorized by RCW 47.68.100 to acquire and maintain airports.

Under this authority, WSDOT owns eight emergency airfields and leases several others. Most of the airfields are located near or adjacent to state highways and range in character from paved to gravel or turf. The primary purpose for the airports is to provide emergency facilities in remote locations. They serve as landing sites for medical evacuations, forest firefighting operations, and search and rescue. In addition, they allow access to local communities and recreation areas. Two airfields are in operational condition 12 months of the year, with five operational from June to October each year. One is only available for emergency search and rescue use. In accordance with WSDOT policy, maintenance is done on each airfield annually to keep it at its existing condition of use. Each airfield is inspected a minimum of three times per year.

The definitions below form the rating criteria for the current airfield condition ratings that follow.

Category	Definition
General use community airport	An airport with a paved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
Limited use community airport	An airport with an unpaved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
General recreational use airport	An airport with a turf (unpaved) runway near access to recreational opportunities with capacity for aircraft less than 12,500 pounds.
Limited search and rescue forward operating location	An airport with a landing pad only capable of accommodating rotorcraft.

Condition rating of Washington State emergency airfields:

Number of Airports						
Owned Airports						
Acceptable for general use as a community airport	1					
Acceptable for limited use as a community airport	1					
Acceptable for general recreation use	5					
Limited search and rescue forward operating location	1					
Total Owned Airports	8					
		2008	2007	2006	2005	2004
Percentage of airports acceptable for general recreational use or better		88%	88%	88%	88%	88%
Percentage of airports not acceptable for general recreational use or better		12%	12%	12%	12%	12%

Note: One airport is open only as a limited search and rescue operating location and is expected to remain in that status. For pictures of specific airfields, refer to the Department of Transportation's website at: http://www.wsdot.wa.gov/aviation/Airports/.

INFORMATION ABOUT INFRASTRUCTURE ASSETS REPORTED USING THE MODIFIED APPROACH

Comparison of Budgeted-to-Actual Preservation and Maintenance

For the Fiscal Years Ended June 30, 2008 through 2004
(expressed in thousands)

	2008			2007		
Highway System						
PAVEMENT	**Budget**	**Actual**	**Variance**	**Budget***	**Actual**	**Variance**
Preservation	$ 118,886	$ 130,375	$ (11,489)	$ 111,195	$ 99,416	$ 11,779
Maintenance	18,329	16,994	1,335	19,152	16,255	2,897
Total	$ 137,215	$ 147,369	$ (10,154)	$ 130,347	$ 115,671	$ 14,676
BRIDGES						
Preservation	$ 11,260	$ 23,407	$ (12,147)	$ 21,055	$ 20,138	$ 917
Maintenance	12,427	12,601	(174)	11,553	11,051	502
Total	$ 23,687	$ 36,008	($ 12,321)	$ 32,608	$ 31,189	$ 1,419
REST AREAS						
Preservation	$ 77	$ 77	$ -	$ 188	$ 173	$ 15
Maintenance	5,590	5,778	(188)	5,056	5,359	(303)
Total	$ 5,667	$ 5,855	$ (188)	$ 5,244	$ 5,532	$ (288)
Emergency Air Fields						
Preservation & maintenance	$ 146	$ 134	$ 12	$ 83	$ 200	$ (117)

In addition to increasing and improving the state highway system, WSDOT places a high priority on preserving and maintaining the current highway system. WSDOT breaks out preservation and maintenance into two separate functions. Preservation can be described as projects that maintain the structural integrity of the existing highway system including roadway pavements, safety features, bridges, and other structures/facilities. The Maintenance function handles the day-to-day needs that occur such as guardrail replacement, patching pot holes, installing signs, vegetation control, etc.

In 1996, WSDOT embarked on an initiative to use outcome based performance measures for evaluating the effectiveness of the Maintenance Program. The Maintenance Accountability Process (MAP) is a comprehensive planning, measuring and managing process that provides a means for communicating the impacts of policy and budget decisions on program service delivery. WSDOT uses it to identify investment choices and affects of those choices in communicating with the Legislature and other stakeholders. The MAP measures and communicates the outcomes of 32 distinct highway maintenance activities. Maintenance results are measured via field condition surveys and reported as Level of Service (LOS) ratings, which range from A to F. LOS targets are defined in terms of the condition of various highway features (i.e. percent of guardrail on the highway system that is damaged) and are set commensurate with the level of funding provided for the WSDOT highway maintenance program. More information about MAP may be obtained at: http://www.wsdot.wa.gov/maintenance/mgmt/accountability.htm.

Notes: Numbers for the Pavement and Bridges budget amounts are calculated based on biennial plans as shown in the WSDOT Monthly Financial Report for subprograms P1 (Roadway Preservation), P2 (Structures Preservation), and M2 (Roadway, Bridge & Tunnel Maintenance). For Fiscal Year 2008, the annual budget was calculated as half the biennial amount. This results in the biennial budget being distributed 50 percent in each fiscal year in anticipation of an even spending pattern. The spending pattern for subprogram P2, Bridges, was not approximately 50 percent in each year.

2006			2005			2004		
Budget*	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
$ 108,409	$ 130,340	$ (21,931)	$ 118,055	$ 122,868	$ (4,813)	$ 116,902	$ 107,229	$ 9,673
19,219	18,586	633	20,657	18,715	1,942	21,254	18,064	3,190
$ 127,628	$ 148,926	$ (21,298)	$ 138,712	$ 141,583	$ (2,871)	$ 138,156	$ 125,293	$ 12,863
$ 8,434	$ 20,338	$ (11,904)	$ 16,768	$ 14,332	$ 2,436	$ 30,637	$ 24,780	$ 5,857
11,552	11,820	(268)	11,159	11,151	8	11,292	11,267	25
$ 19,986	$ 32,158	$ (12,172)	$ 27,927	$ 25,483	$ 2,444	$ 41,929	$ 36,047	$ 5,882
$ 188	$ 129	$ 59	$ 381	$ 333	$ 48	$ 331	$ 222	$ 109
5,021	5,187	(166)	4,268	5,527	(1,259)	4,268	4,833	(565)
$ 5,209	$ 5,316	$ (107)	$ 4,649	$ 5,860	$ (1,211)	$ 4,599	$ 5,055	$ (456)
$ 83	$ 67	$ 16	$ 108	$ 129	$ (21)	$ 70	$ 71	$ (1)

*The Bridge Preservation budget has been restated to reflect the approximately one-third, two-thirds expenditure pattern for Fiscal Year 2006 and Fiscal Year 2007 respectively.

The Preservation budgeted and actual amounts were adjusted for capitalized infrastructure and equipment in each fiscal year.

The Rest Areas Preservation budget is part of the P3 subprogram and consists of programmed rest area preservation projects of a non-capitalized nature. The Rest Areas Maintenance budget is based on the biennial plan as shown in the WSDOT Monthly Financial Report for subprogram M2 under maintenance group "Rest Area Maintenance."

The Emergency Airfields (program F3, State Airport Construction and Maintenance) budget amount came from the same sources as for pavements and bridges described above but is only one-fourth of the biennial total because the budget is split evenly between state owned and leased airports.

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APPENDIX E

BOOK-ENTRY TRANSFER SYSTEM

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BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by DTC. The state makes no representation as to the accuracy or completeness thereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully registered Certificates, registered in the name of CEDE & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each Principal Payment Date of the Certificates, each in the aggregate principal amount of represented by such Certificates, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need of physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Certificates under the DTC system must be made by or through Direct Participants. Such Direct Participants will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Participants with DTC are registered in the name of DTC's partnership nominee, CEDE & Co. The deposit of Certificates with DTC and their registration in the name of CEDE & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to CEDE & Co. If less than all of the Certificates within a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in Certificates to be redeemed.

Neither DTC nor CEDE & Co. will consent or vote with respect to Certificates. Under its usual procedures, DTC mails an Omnibus Proxy to the state as soon as possible after the record date. The Omnibus Proxy assigns CEDE & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Certificates will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent or the state, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the state or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the state. Under such circumstances, in the event that a successor securities depository is not obtained, physical certificates are required to be printed and delivered.

The state may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources the state believes to be reliable, but the state takes no responsibility for the accuracy or completeness thereof.